

INDEPENDENT AUDITOR'S REPORT
INDEPENDENT SCHOOL DISTRICT NO. 403
IVANHOE, MINNESOTA 56142
FOR THE YEAR ENDING JUNE 30, 2019

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Independent School District No. 403
Ivanhoe, Minnesota

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Independent School District No. 403
Ivanhoe, Minnesota

BOARD OF EDUCATION AND ADMINISTRATIVE PERSONNEL
JUNE 30, 2019

BOARD OF EDUCATION

Matt Landrus	Chairperson
Becky Paluch	Vice-Chairperson
Lindsy Gratz	Treasurer
Stacy Kiley	Clerk
Adam Gillund	Director
Marty Rost	Director

ADMINISTRATIVE PERSONNEL

Dan Deitte	Superintendent
Heather Anderson	Principal
SW/WC Service Cooperative	Business Manager
Nancy Blanchette	Administrative Assistant

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INDEPENDENT AUDITOR'S REPORT

To The Board of Education
Independent School District No. 403
Ivanhoe Public Schools
Ivanhoe, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Independent School District No. 403, Ivanhoe Public Schools, Ivanhoe, Minnesota, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financials statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The prior year partial comparative information has been derived from the District's financial statements for the year ended June 30, 2018, and in our report dated September 18, 2018, we expressed unqualified opinions on the respective financial statements of the governmental activities and each major fund.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, and each major fund, of the Independent School District No. 403, Ivanhoe Public Schools, Ivanhoe, Minnesota as of June 30, 2019, and the respective changes in financial position, and the respective budgetary comparison for General Fund and Major Special Revenue Funds (Food Service Fund and Community Service Fund) and Debt Service Fund, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Partial Comparative Information

We have previously audited the district's 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 18, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information on pages 6 –12 and the Schedules of Proportionate Share of the Net Pension Liability and Employer Contributions on page 55 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Independent School District No. 403's basic financial statements. The combining and individual fund financial statements and schedules as listed in the table of contents as supplemental information are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 17, 2019, on our consideration of the Independent School District No. 403's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Independent School District No. 403's internal control over financial reporting and compliance.

Meulebroeck, Taubert Co., PLLP

Meulebroeck, Taubert Co., PLLP
Certified Public Accountants
Pipestone, Minnesota

September 17, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2019

This section of the Independent School District No. 403's annual financial report presents management's discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2019. Please read it in conjunction with the other components of the District's annual financial report.

The Management's Discussion and Analysis (MD&A) is an element of Required Supplementary Information specified in the Governmental Accounting Standards Board's (GASB) Statement No. 34 --*Basic Financial Statements -- and Management's Discussion and Analysis -- for State and Local Governments* issued in June 1999. Certain comparative information between the current year (2019) and the prior year (2018) is required to be presented in MD&A.

Financial Highlights

Key financial highlights for the 2018-2019 fiscal year include the following:

- Net position increased by \$433,050, or 14.5% over June 30, 2018 due primarily to the GASB 68 adjustment for PERA and TRA pension.
- Total governmental revenues decreased by \$175,770 or 6.35% in comparison to fiscal year 2018, while expenditures decreased by \$7,725,720 or 75.33% in comparison to fiscal year 2018. Expenditures decrease primarily due to the payment of \$7,780,000 in bond principal on callable bonds refinanced in 2016.
- Fund Balance increased by \$61,871 over June 30, 2018.

Overview of the Financial Statements

The financial section of the annual report consists of four parts -- Independent Auditor's Report, required supplementary information which includes the management's discussion and analysis (this section), the basic financial statements, and supplemental information. The basic financial statements include District-wide financial statements and fund financial statements and the notes to the financial statements.

District-Wide Statements

The District-wide statements (statement of net assets and statement of activities) report information about the District as a whole using accounting methods similar to those used by private sector companies. The statement of net assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two District-wide statements report the District's net position and how they have changed. Net position -- the difference between the District's assets and liabilities -- is one way to measure the District's financial health or position. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating. You also need to consider other nonfinancial factors, however, such as changes in the District's property tax base, pupil enrollment, and the condition of school facilities.

Fund Financial Statements

The fund financial statements include more detailed information about a District's individual funds. The District maintains the following funds:

Governmental Funds - The District's services are included in this type of fund, which generally focuses on 1) how cash and other financial assets that can readily be converted to cash flow in and out, and 2) the balances left at year-end that are available for spending. Consequently, the governmental funds provide a detailed short-term view that helps to determine whether there are more or less financial resources that can be spent in the near future to finance the District's activities. Because this information does not encompass the additional long-term focus of the District-wide statements, we provide additional information (reconciliation schedules) immediately following the governmental funds statements that explain the relationship (or differences) between these two types of financial statement presentations.

Fiduciary Funds – The District is the trustee, or fiduciary, for assets that belong to others. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District's fiduciary activity, a scholarship fund, is reported in a separate Statement of Fiduciary Net Assets and a Statement of Changes in Fiduciary Net Position. We exclude this activity from the district-wide financial statements because the District cannot use these assets to finance operations.

Financial Analysis of the District As A Whole/Financial Analysis of the District's Funds (District-Wide Statements)

As noted, net position may serve over time as a useful indicator of a government's financial position. In the case of the Independent School District No. 403, liabilities exceeded assets by \$2,546,130 at the close of the most recent fiscal year. This was an increase of \$433,050 or 14.5% from the previous year total of \$2,979,180.

Table 1 is a summarized view of the District's Statement of Net Position.

Table 1 Statement of Net Position As of June 30, 2019		
<u>Assets</u>	<u>2019</u>	<u>2018</u>
Current and other assets	1,933,710	2,042,796
Capital assets, net of depreciation	<u>6,064,784</u>	<u>6,556,142</u>
Total Assets	7,998,494	8,598,938
<u>Deferred Outflows of Resources</u>		
Related to Pensions	<u>792,535</u>	<u>1,051,225</u>
Total Assets and Deferred Outflows of Resources	<u>8,791,029</u>	<u>9,650,163</u>
<u>Liabilities</u>		
Current and other liabilities	760,972	953,019
Long-term liabilities	<u>8,187,745</u>	<u>9,905,121</u>
Total Liabilities	8,948,717	10,858,140
<u>Deferred Inflows of Resources</u>		
Property Taxes Levied for Subsequent Year	1,093,388	1,054,434
Related to Pensions	<u>1,295,054</u>	<u>716,769</u>
Total Deferred Inflows of Resources	2,388,442	1,771,203
<u>Net Position</u>		
Invested in capital assets, net of related debt	(2,070,216)	(2,113,858)
Restricted	422,803	372,673
Unrestricted	<u>(898,717)</u>	<u>(1,237,995)</u>
Net Position	<u>(2,546,130)</u>	<u>(2,979,180)</u>
Total Liabilities and Net Position	<u>8,791,029</u>	<u>9,650,163</u>

Independent School District No. 403
Ivanhoe, Minnesota

The District's financial position is the product of numerous factors. Therefore, it is important to view the net position balance as a starting point to evaluate future years' results, rather than to just focus on the current balance.

Table 2 presents a condensed version of the change in net assets of the District.

Table 2
Change in Net Position
For the year ended June 30, 2019

	<u>2019</u>	<u>2018</u>
<u>Revenues</u>		
Program Revenues		
Charges for Services	51,827	57,041
Operating Grants and Contributions	224,664	173,893
General Revenues		
Property Taxes	817,679	1,095,263
Unrestricted Federal and State Aid	1,426,550	1,276,395
Other	69,032	158,066
Total revenues	<u>2,589,752</u>	<u>2,760,658</u>
<u>Expenses</u>		
District and School Administration	33,183	31,573
District Support Services	84,420	80,599
Regular Instruction	509,074	1,253,291
Exceptional Instruction	168,949	143,854
Instructional Support Services	47,972	50,622
Pupil Support Services	169,886	167,059
Site, Buildings, and Equipment	732,059	701,164
Fiscal and Other Fixed Cost Programs	18,556	23,961
Food Service	71,395	71,062
Community Service	117,530	125,765
Interest and Fiscal Charges on		
Long-term Liabilities	<u>203,678</u>	<u>523,275</u>
Total expenses	<u>2,156,702</u>	<u>3,172,225</u>
<u>Change in Net Position</u>	433,050	(411,567)
Beginning net position,	<u>(2,979,180)</u>	<u>(2,567,613)</u>
Ending net position	<u>(2,546,130)</u>	<u>(2,979,180)</u>

The district's total revenue consisted of program revenues of \$276,491, property taxes of \$817,679, federal and state aid not restricted to specific purposes of \$1,426,550, and other revenues of \$69,032.

The cost of all governmental activities this year was \$2,156,702.

- The users of the district programs paid for \$51,827 or 2.40% of the total costs.
- Operating grants and contributions consisting of federal and state aids restricted for specific purposes and donations totaled \$224,664 or 10.42% of total costs.
- The state government subsidized certain programs with aid not restricted for specific purposes. This totaled \$1,426,550 or 66.14% of total costs.

Figure A and Figure B show further analysis of these revenue sources and expenditure functions.

Figure A - Sources of Revenues for Fiscal Year 2019

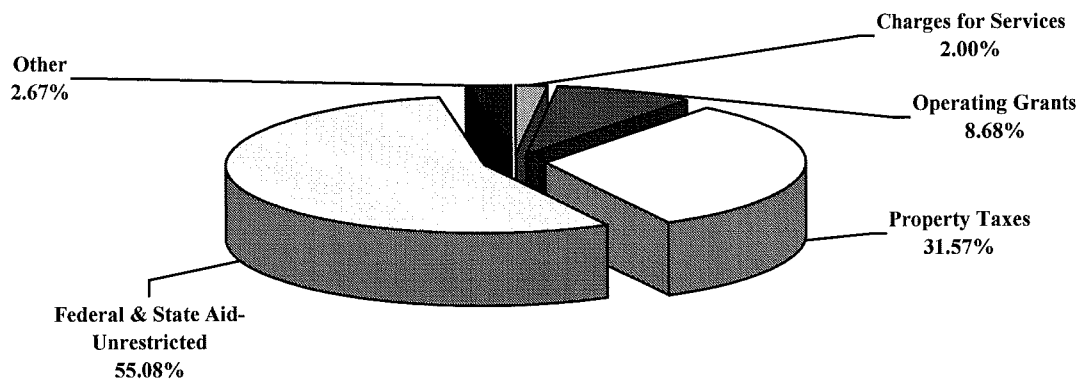
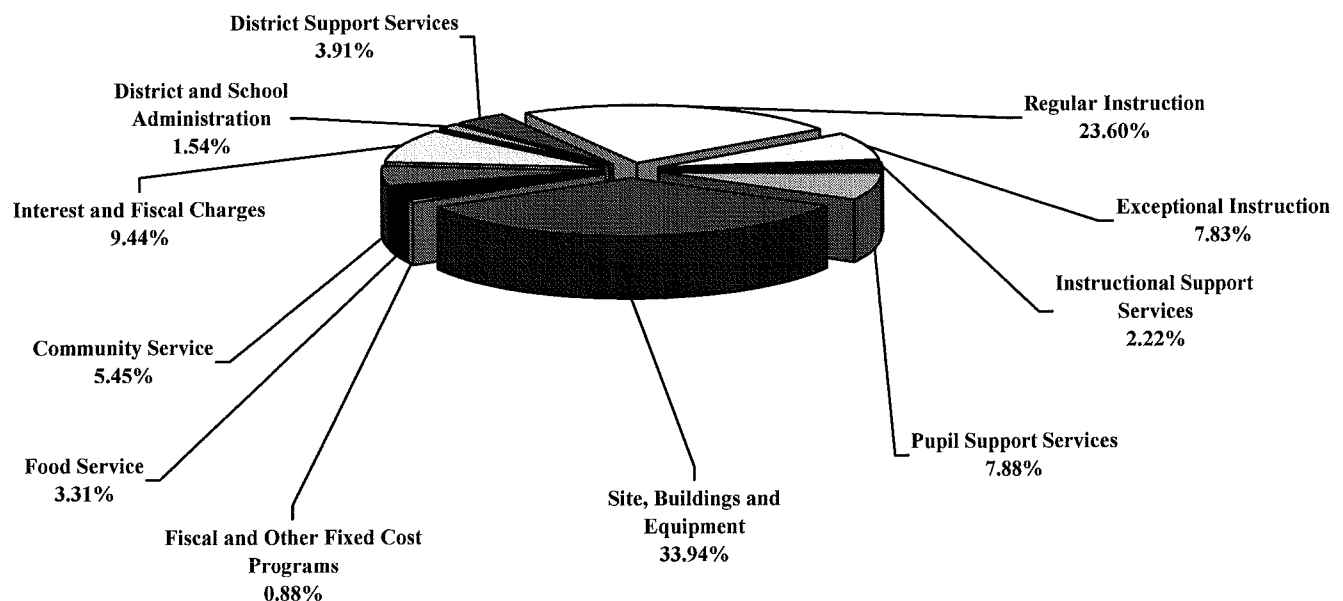


Figure B - Expenses for Fiscal Year 2019



Independent School District No. 403
Ivanhoe, Minnesota

Financial Analysis of the District's Funds (Fund Financial Statements)

Fund Balance

The financial performance of the district as a whole is reflected in its governmental funds as well. As the district completed the year, the governmental funds reported a combined fund balance of \$620,883 which is an increase of \$61,871 over the prior year fund balance of \$559,012. The General Fund had an increase of \$17,117. The Food Service Fund had no change in fund balance. The Community Service Fund a decrease of \$12,218. The Debt Service Fund had an increase of \$56,972.

Revenues and Expenditures/Expenses

Revenues of the district's governmental funds totaled \$2,592,616 while total expenditures were \$2,530,745. A summary of the revenues and expenditures reported on the governmental financial statements is as follows:

	Revenue	Expenditures	Other Financing Sources (Uses)	Fund Balance Increase (Decrease)
General Fund	1,623,496	1,603,277	(3,102)	17,117
Food Service Fund	68,293	71,395	3,102	-0-
Community Service Fund	105,177	117,395		(12,218)
Debt Service Fund	<u>795,650</u>	<u>738,678</u>		<u>56,972</u>
Total	<u>2,592,616</u>	<u>2,530,745</u>	<u>-0-</u>	<u>61,871</u>

General Fund Budgetary Analysis

The District is required to adopt an operating budget prior to the beginning of its fiscal year, referred to as the original budget. During the year, the District might amend that budget for known changes in circumstances such as legislative funding. During fiscal year 2019, the District did not revise the budget.

- Actual general fund revenues were under budget by \$58,376 primarily due to differences in state aids.
- Actual general fund expenditures under budget by \$42,790 primarily due to under budgeting expenditures for salaries, benefits.

Capital Assets

During fiscal year 2019, the capital asset additions included Camera system, floor finishing system and heat pump and compressor.

Table 3 shows the District's capital assets, together with changes from the previous year. The table also shows the total depreciation expense for fiscal year ending June 30, 2019.

Table 3
Capital Assets

	<u>2019</u>	<u>2018</u>	<u>Increase (Decrease)</u>
Land	9,694	9,694	
Land Improvements	10,089,080	10,089,080	
Buildings and Improvements	1,060,353	1,044,999	15,354
Equipment	300,495	279,196	21,299
Less: Accumulated Depreciation	<u>(5,394,838)</u>	<u>(4,866,827)</u>	<u>(528,011)</u>
Total	<u>6,064,784</u>	<u>6,556,142</u>	<u>(491,358)</u>
Depreciation Expense	<u>528,011</u>	<u>527,594</u>	<u>(1,797)</u>

Long-Term Liabilities

In fiscal year 2019 the District had General Obligation Judgment Bonds of 2014 with an outstanding balance of \$890,000 and General Obligation Refunding School Building Bonds of 2016 with an outstanding balance of \$7,245,000. Pension benefits payable decreased by \$1,167,376. Pension benefits payable total \$602,745 at June 30, 2019. More detailed information about the district's long-term liabilities is presented in Note 8.

Factors Bearing on the District's Future

With the exception of voter-approved excess operating referendum, the District is dependent on the State of Minnesota for the vast majority of its funding. Recent experience shows that legislated revenue increases have not been sufficient to meet instructional program needs and increased costs due to inflation.

Contacting the District's Management

This financial report is designed to provide a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact the Independent School District No. 403 at 421 N. Rebecca St., Ivanhoe, Minnesota 56136.

STATEMENT OF NET POSITION
JUNE 30, 2019

	<u>2019</u>	<u>2018</u>
<u>Assets</u>		
Current Assets		
Cash and Investments	1,271,012	1,355,473
Receivables:		
Property Taxes	585,574	562,950
Governmental Units	66,353	112,345
Other	4,648	9,832
Inventory	5,039	2,196
Prepaid Items	1,084	
Capital Assets:		
Non-Depreciable	9,694	9,694
Depreciable - net of accumulated depreciation	6,055,090	6,546,448
Total Assets	7,998,494	8,598,938
Deferred Outflows of Resources		
Related to Pensions	792,535	1,051,225
Total Assets and Deferred Outflows of Resources	8,791,029	9,650,163
<u>Liabilities</u>		
Accounts Payable	11,698	15,902
Salaries Payable	47,730	49,606
Due to Other Governmental Units	124,259	22,800
Payroll Deductions	27,285	26,996
Short Term Indebtedness		302,715
Long-term Liabilities:		
Portion Due Within One Year	550,000	535,000
Portion Due in More Than One Year	7,585,000	8,135,000
Pension Benefit Payable	602,745	1,770,121
Total Liabilities	8,948,717	10,858,140
Deferred Inflows of Resources		
Property Taxes Levied for Subsequent Year	1,093,388	1,054,434
Related to Pensions	1,295,054	716,769
Total Deferred Inflows of Resources	2,388,442	1,771,203
<u>Net Position</u>		
Invested in Capital Assets, Net of Related Debt	(2,070,216)	(2,113,858)
Restricted for:		
General Fund State Mandated Purposes	40,064	31,844
Food Service	4,812	7,656
Community Service	95,788	108,006
Debt Service	282,139	225,167
Unrestricted	(898,717)	(1,237,995)
Total Net Position	(2,546,130)	(2,979,180)
Total Liabilities, Deferred Inflows of Resources and Net Position	8,791,029	9,650,163

See accompanying notes to the financial statements.

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019

<u>Functions</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>	
		<u>Charges For Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Total Government Activities</u>	
					<u>2019</u>	<u>2018</u>
Governmental Activities						
District and School Administration	33,183				(33,183)	(31,573)
District Support Services	84,420				(84,420)	(80,599)
Regular Instruction	509,074		126,618		(382,456)	(1,177,113)
Exceptional Instruction	168,949		46,501		(122,448)	(96,329)
Instructional Support Services	47,972				(47,972)	(50,622)
Pupil Support Services	169,886				(169,886)	(167,059)
Site, Buildings and Equipment	732,059				(732,059)	(701,164)
Fiscal and Other Fixed Cost Programs	18,556				(18,556)	(23,961)
Food Service	71,395	31,941	36,352		(3,102)	(3,661)
Community Service	117,530	19,886	15,193		(82,451)	(85,935)
Interest and Fiscal Charges on Long-term Liabilities	203,678				(203,678)	(523,275)
Total	<u>2,156,702</u>	<u>51,827</u>	<u>224,664</u>	<u>-0-</u>	<u>(1,880,211)</u>	<u>(2,941,291)</u>
<u>General Revenues</u>						
Property Taxes Levied for:						
General Purposes					266,235	293,791
Community Service					30,670	31,433
Debt Service					520,774	770,039
Federal and State Aid Not Restricted to Specific Purposes					1,426,550	1,276,395
Earnings on Investments					17,888	75,384
Miscellaneous					51,144	82,682
Total General Revenues					<u>2,313,261</u>	<u>2,529,724</u>
Change in Net Position					<u>433,050</u>	<u>(411,567)</u>
Net Position - Beginning					<u>(2,979,180)</u>	<u>(2,567,613)</u>
Net Position - Ending					<u>(2,546,130)</u>	<u>(2,979,180)</u>

See accompanying notes to the financial statements.

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2019

	Major Funds				Total Governmental Funds	
	General	Food Service	Community Service	Debt Service	2019	2018
<u>Assets</u>						
Cash and Investments	604,927		118,661	547,424	1,271,012	1,355,473
Current Property Taxes Receivable	135,366		8,158	433,623	577,147	555,619
Delinquent Property Taxes Receivable	4,615		376	3,436	8,427	7,331
Accounts Receivable	1,244	645	395		2,284	9,832
Due From Department of Education	38,223		1,485	26,645	66,353	112,345
Due From Other Minnesota School Districts	2,364				2,364	
Due from Other Funds	1,366				1,366	
Inventory		5,039			5,039	2,196
Prepaid Items	1,084				1,084	
Total Assets	<u>789,189</u>	<u>5,684</u>	<u>129,075</u>	<u>1,011,128</u>	<u>1,935,076</u>	<u>2,042,796</u>
<u>Liabilities, Deferred Inflows of Resources and Fund Balances</u>						
<u>Liabilities</u>						
Accounts Payable	10,431	460	807		11,698	15,902
Interest Payable						4,751
Salaries Payable	31,528	3,858	12,344		47,730	49,606
Short Term Indebtedness						297,964
Due to Other Governmental Units						68
Due to Other Minnesota School Districts	124,259				124,259	22,732
Due to Other Funds		1,366			1,366	
Payroll Deductions	27,285				27,285	26,996
Total Liabilities	<u>193,503</u>	<u>5,684</u>	<u>13,151</u>	<u>-0-</u>	<u>212,338</u>	<u>418,019</u>
<u>Deferred Inflows of Resources</u>						
Unearned Revenue-Delinquent Taxes	4,615		416	3,436	8,467	11,331
Property Taxes Levied for Subsequent Years	348,115		19,720	725,553	1,093,388	1,054,434
Total Deferred Inflows of Resources	<u>352,730</u>	<u>-0-</u>	<u>20,136</u>	<u>728,989</u>	<u>1,101,855</u>	<u>1,065,765</u>
<u>Fund Balance</u>						
Fund Balance-Nonspendable	1,084	5,039			6,123	2,196
Fund Balance-Restricted	38,980	4,812	95,788	282,139	421,719	372,673
Fund Balance-Unassigned	202,892	(9,851)			193,041	184,143
Total Fund Balance	<u>242,956</u>	<u>-0-</u>	<u>95,788</u>	<u>282,139</u>	<u>620,883</u>	<u>559,012</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>789,189</u>	<u>5,684</u>	<u>129,075</u>	<u>1,011,128</u>	<u>1,935,076</u>	<u>2,042,796</u>

See accompanying notes to the financial statements.

RECONCILIATION OF GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2019

	<u>2019</u>		<u>2018</u>
Total Governmental Fund Balances	620,883		559,012
Amounts reported in Governmental Activities in The Statement of Net Assets are Different Because:			
Capital assets used in the governmental activities are not financial resources and therefore are not reported in the funds			
Cost of Capital Assets	11,459,622		11,422,969
Less: Accumulated Depreciation	<u>(5,394,838)</u>	6,064,784	<u>(4,866,827)</u>
			6,556,142
Some of the District's property taxes will be collected after year-end, but are not available soon enough to pay for the current period's expenditures, and therefore are reported as deferred revenue.		8,467	11,331
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.			
Deferred Outflows of Resources related to Pensions	792,535		1,051,225
Deferred Inflows of Resources related to Pensions	<u>(1,295,054)</u>	(502,519)	<u>(716,769)</u>
			334,456
Long-term liabilities that pertain to governmental funds are not due and payable in the current period and therefore are not reported as fund liabilities. All liabilities - both current and long-term are reported in the statement of assets. Balances at year-end are:			
Bonds Payable	(8,135,000)		(8,670,000)
Pension Benefits Payable	<u>(602,745)</u>	<u>(8,737,745)</u>	<u>(1,770,121)</u>
			(10,440,121)
Net Position of Governmental Activities		<u>(2,546,130)</u>	<u>(2,979,180)</u>

See accompanying notes to the financial statements.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2019

	Major Funds				Total Governmental Funds	
	General	Food Service	Community Service	Debt Service	2019	2018
<u>Revenues</u>						
Local Property Tax Levies	269,099		30,670	520,774	820,543	1,103,270
Other Local and County Revenues	20,357		59,314	8,429	88,100	183,238
Revenue from State Sources	1,268,947	4,948	15,193	266,447	1,555,535	1,379,095
Revenue from Federal Sources	64,275	31,404			95,679	71,193
Other	818	31,941			32,759	31,590
Total Revenues	1,623,496	68,293	105,177	795,650	2,592,616	2,768,386
<u>Expenditures</u>						
District and School Administration	33,183				33,183	31,573
District Support Services	84,420				84,420	80,599
Regular Instruction	857,524				857,524	858,016
Exceptional Instruction	168,949				168,949	143,854
Community Education and Services			117,395		117,395	128,465
Instructional Support Services	47,972				47,972	50,622
Pupil Support Services	169,886	71,395			241,281	238,121
Site, Buildings and Equipment	222,787				222,787	197,979
Fiscal and Other Fixed Cost Programs	18,556			738,678	757,234	8,527,236
Total Expenditures	1,603,277	71,395	117,395	738,678	2,530,745	10,256,465
Excess Revenues (Expenditures)						
Before Other Financing Sources (Uses)	20,219	(3,102)	(12,218)	56,972	61,871	(7,488,079)
<u>Other Financing Sources (Uses)</u>						
Permenant Transfer	(3,102)	3,102				
Sale of Equipment						279
Total Other Financing Sources (Uses)	(3,102)	3,102	-0-	-0-	-0-	279
Net Change in Fund Balance	17,117	-0-	(12,218)	56,972	61,871	(7,487,800)
Fund Balance-Beginning	225,839	-0-	108,006	225,167	559,012	8,046,812
Fund Balance-Ending	242,956	-0-	95,788	282,139	620,883	559,012

See accompanying notes to the financial statements.

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019**

	<u>2019</u>	<u>2018</u>
Net Change in Governmental Fund Balances	61,871	(7,487,800)
Amounts reported for the governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures, however, in the statement of activities, assets with an initial, individual cost of more than \$2,000.00 are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period		
Capital Outlay	36,653	5,510
Disposal of Assets	-0-	(3,346)
Depreciation Expense	<u>(528,011)</u>	<u>(527,594)</u>
	(491,358)	(525,430)
Governmental funds report long-term debt proceeds as financing sources, while repayment of long-term debt principal is reported as an expenditure. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities and repayment of principal reduces the liability. Interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, however, interest expense is recognized as it accrues. The net effect of these differences is as follows:		
Bond Payments	535,000	7,980,000
Delinquent property taxes receivable will be collected this year, but are not available soon enough to pay for current period's expenditures, are therefore deferred in the funds.	(2,864)	(8,007)
In the statement of activities, severance and retirement benefits are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid).	(836,975)	(894,594)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		
Change in Pension Benefits	1,167,376	524,264
Change in Net Position of Governmental Activities	<u>433,050</u>	<u>(411,567)</u>

See accompanying notes to the financial statements.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2019

	Budgeted Amounts		Actual	Better/(Worse)
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Than Final</u>
				<u>Budget</u>
<u>Revenues</u>				
Local Property Tax Levies	265,721	265,721	269,099	3,378
Other Local and County Revenues	42,465	42,465	20,357	(22,108)
Revenue from State Sources	1,320,898	1,320,898	1,268,947	(51,951)
Revenue from Federal Sources	52,188	52,188	64,275	12,087
Other	600	600	818	218
Total Revenues	<u>1,681,872</u>	<u>1,681,872</u>	<u>1,623,496</u>	<u>(58,376)</u>
<u>Expenditures</u>				
District and School Administration	33,485	33,485	33,183	(302)
District Support Services	90,755	90,755	84,420	(6,335)
Regular Instruction	881,702	881,702	857,524	(24,178)
Exceptional Instruction	179,275	179,275	168,949	(10,326)
Instructional Support Services	38,149	38,149	47,972	9,823
Pupil Support Services	178,301	178,301	169,886	(8,415)
Site, Building and Equipment	218,900	218,900	222,787	3,887
Fiscal and Other Fixed Cost Programs	25,500	25,500	18,556	(6,944)
Total Expenditures	<u>1,646,067</u>	<u>1,646,067</u>	<u>1,603,277</u>	<u>(42,790)</u>
Excess Revenues (Expenditures)				
Before Other Financing Sources (Uses)	35,805	35,805	20,219	(15,586)
<u>Other Financing Sources (Uses)</u>				
Permanant Transfer	(6,556)	(6,556)	(3,102)	3,454
Sale of Equipment	250	250		(250)
Total Other Financing Sources (Uses)	<u>(6,306)</u>	<u>(6,306)</u>	<u>(3,102)</u>	<u>3,204</u>
Net Change in Fund Balance	<u>29,499</u>	<u>29,499</u>	<u>17,117</u>	<u>(12,382)</u>
Fund Balance-Beginning			225,839	
Fund Balance-Ending			<u>242,956</u>	

See accompanying notes to the financial statements.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
MAJOR FOOD SERVICE FUND
FOR THE YEAR ENDED JUNE 30, 2019

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Better/(Worse)</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Than Final</u>
				<u>Budget</u>
<u>Revenues</u>				
Revenue from State Sources	4,600	4,600	4,948	348
Revenue from Federal Sources	28,900	28,900	31,404	2,504
Other	30,175	30,175	31,941	1,766
Total Revenues	63,675	63,675	68,293	4,618
<u>Expenditures</u>				
Pupil Support Services	70,231	70,231	71,395	(1,164)
Total Expenditures	70,231	70,231	71,395	(1,164)
Excess Revenues (Expenditures)				
Before Other Financing Sources (Uses)	(6,556)	(6,556)	(3,102)	3,454
<u>Other Financing Sources (Uses)</u>				
Permanent Transfer	6,556	6,556	3,102	(3,454)
Total Other Financing Sources (Uses)	6,556	6,556	3,102	(3,454)
Net Change in Fund Balance	<u>-0-</u>	<u>-0-</u>	-0-	<u>-0-</u>
Fund Balance-Beginning			<u>-0-</u>	
Fund Balance-Ending			<u>-0-</u>	

See accompanying notes to the financial statements.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
MAJOR COMMUNITY SERVICE FUND
FOR THE YEAR ENDED JUNE 30, 2019

	<u>Budgeted Amounts</u>		<u>Actual</u>	Better/(Worse)
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Than Final</u>
				<u>Budget</u>
<u>Revenues</u>				
Local Property Tax Levies	32,870	32,870	30,670	(2,200)
Other Local and County Revenues	54,790	54,790	59,314	4,524
Revenue from State Sources	14,846	14,846	15,193	347
Total Revenues	102,506	102,506	105,177	2,671
<u>Expenditures</u>				
Community Education and Services	124,919	124,919	117,395	7,524
Total Expenditures	124,919	124,919	117,395	7,524
Net Change in Fund Balance	(22,413)	(22,413)	(12,218)	10,195
Fund Balance-Beginning			108,006	
Fund Balance-Ending			95,788	

See accompanying notes to the financial statements.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
MAJOR DEBT SERVICE FUND
FOR THE YEAR ENDED JUNE 30, 2019

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Better/(Worse)</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Than Final</u>
				<u>Budget</u>
<u>Revenues</u>				
Local Property Tax Levies	523,298	523,298	520,774	(2,524)
Other Local and County Revenues	36,530	36,530	8,429	(28,101)
Revenue from State Sources	266,446	266,446	266,447	
Total Revenues	<u>826,274</u>	<u>826,274</u>	<u>795,650</u>	<u>(30,625)</u>
<u>Expenditures</u>				
Fiscal and Other Fixed Cost Programs	738,900	738,900	738,678	222
Total Expenditures	<u>738,900</u>	<u>738,900</u>	<u>738,678</u>	<u>222</u>
Net Change in Fund Balance	<u>87,374</u>	<u>87,374</u>	56,972	<u>(30,403)</u>
Fund Balance-Beginning			225,167	
Fund Balance-Ending			<u>282,139</u>	

See accompanying notes to the financial statements.

STATEMENT OF FIDUCIARY ASSETS
EXPENDABLE TRUST FUND
JUNE 30, 2019

	<u>2019</u>	<u>2018</u>
<u>Assets</u>		
Cash and Investments	<u>3,717</u>	<u>3,938</u>
Total Assets	<u><u>3,717</u></u>	<u><u>3,938</u></u>
 <u>Net Position</u>		
Reserved for Scholarships	<u>3,717</u>	<u>3,938</u>
Total Net Position	<u><u>3,717</u></u>	<u><u>3,938</u></u>

See accompanying notes to the financial statements.

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
EXPENDABLE TRUST FUND
FOR THE YEAR ENDED JUNE 30, 2019

<u>Additions</u>	<u>2019</u>	<u>2018</u>
Interest Income	29	43
Total Additions	29	43
 <u>Deductions</u>		
Scholarships	250	200
Change in Net Position	(221)	(157)
 Net Position - Beginning of Year	3,938	4,095
Net Position - End of Year	<u>3,717</u>	<u>3,938</u>

See accompanying notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

Note 1 Summary of Significant Accounting Policies

A. Basis of Presentation

The financial statements of Independent School District No. 403 have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

B. Financial Reporting Entity

Independent School District 403, Ivanhoe, was formed and operates pursuant to applicable Minnesota laws and statutes. The Ivanhoe District operates under an elected six member Board of Education form of government. The Board has control over all activities related to the public school education in the Ivanhoe District.

As required by generally accepted accounting principles, these financial statements present the District and its component units, entities for which the government is considered to be financially accountable.

Component units are legally separate entities for which the District (primary government) is financially accountable, or for which the exclusion of the component unit would render the financial statements of the primary government misleading. The criteria used to determine if the primary government is financially accountable for a component unit include whether or not the primary government appoints the voting majority of the potential component unit's governing body, is able to impose its will on the potential component unit, is in a relationship of financial benefit or burden with the potential component unit, or is fiscally depended upon by the potential component unit. Based on these criteria, there are no organizations considered to be component units of the District.

Student activities are determined primarily by student participants under the guidance of an adult and are generally conducted outside school hours. The School Board does have a fiduciary responsibility in establishing broad policies and ensuring that appropriate financial records are maintained for student activities. However, in accordance with Minnesota State Statutes, the District's School Board has not elected to control or exercise oversight responsibility with respect to the underlying student activities. Accordingly, the student activity accounts are not included in these financial statements.

C. Basic Financial Statement Presentation

The District-wide financial statements (i.e. the Statement of Net Position and the Statement of Activities) display information about the reporting government as a whole. These statements include all the financial activities of the District, except for the fiduciary funds. The Fiduciary Funds are only reported in the Statements of Fiduciary Net Position at the fund financial statement level.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

Note 1 Summary of Significant Accounting Policies - continued

C. Basic Financial Statement Presentation- continued

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The District applies restricted resources first when an expense is incurred for purpose for which both restricted and unrestricted net assets are available. Depreciation expense that can be specifically identified by function is included in the direct expenses of each function. Interest on long-term debt is considered an indirect expense and is reported separately on the Statement of Activities. Generally, the effect of material inter fund activity has been removed from the District-wide financial statements.

Separate fund financial statements are provided for governmental and fiduciary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. Fiduciary funds are presented in the fiduciary fund financial statements by type: expendable trust, and agency. Since by definition, fiduciary fund assets are being held for the benefit of a third party and cannot be used for activities or obligations of the District, these funds are excluded from the District-wide statements.

Proprietary funds are used to report business-type activities carried on by a school district. No activities of the District were determined to be of this nature, so no proprietary funds are present in the financial statements.

D. Basis of Accounting and Measurement Focus

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus and basis of accounting. The District-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are generally recognized as revenues in the year for which they are levied, except for amounts advance recognized in accordance with a statutory "tax shift" described later in these notes. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

Note 1 Summary of Significant Accounting Policies - continued

D. Basis of Accounting and Measurement Focus - continued

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. "Measureable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Property taxes are considered to be available if collected within 60 days of fiscal year-end. Federal revenue is recorded in the year in which the related expenditure is made. State revenue is recognized in the year to which it applies according to Minnesota Statutes and U.S. generally accepted accounting principles. Other miscellaneous revenues (except investment earnings) are recorded as revenues when received because they are generally not measurable until then. Investment earnings are recorded when earned because they are measureable and available. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

All major revenues are susceptible to accrual. Property tax revenues for all funds, which are payable by property owners on a calendar-year basis, are recognized as revenues in the fiscal years for which they apply according to Minnesota Statutes. Federal revenues are recorded in the year in which the related expenditure is made. If the amounts of Minnesota or federal revenues cannot be reasonably estimated or realization is not assured, they are not recorded as revenue in the current year.

The District reports unavailable revenue on its balance sheet. Unavailable revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Unavailable revenues also arise when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to the incurring qualified expenditures. In subsequent periods, when both revenue recognition criteria are met or when the District has a legal claim to the resources, the liability for unavailable revenue is removed and revenue is recognized.

Fiduciary funds are accounted for on a flow economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the period for which they are incurred and become measurable.

Description of Funds

The existence of the various District funds has been established by the State of Minnesota, Department of Education. Each fund is accounted for as an independent entity. A description of the funds included in this report is as follows:

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

Note 1 Summary of Significant Accounting Policies - continued

D. Basis of Accounting and Measurement Focus - continued

Governmental Funds

General Fund

The General Fund includes all financial transactions relating to the administration, instruction, maintenance, transportation, and capital expenditures of the District which are not accounted for in other funds.

Special Revenue Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted for expenditures for specified purposes. These funds include the Food Service and Community Service funds.

The Food Service fund is used to account for food service revenues and expenditures.

The Community Service fund is used to account for services provided to residents in the areas of recreation, civic activities, nonpublic pupils, adult or early childhood programs, or other similar services.

Debt Service Fund

Debt Service Funds account for the accumulation of resources for, and the payment of, long-term debt principal, interest and related costs.

Fiduciary Funds

Agency Fund

The Agency Fund is used to account for the assets belonging to student organizations. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurements of results of operations.

E. Budgets and Budgetary Accounting

The budgeted amounts included in the statement of revenues and expenditures were accounted for and presented on the same basis and using the same accounting practices as are used to account and prepare financial reports for the funds. Budgets presented in this report for comparison to actual amounts are presented in accordance with generally accepted accounting principles. The budgets are prepared by the school personnel and approved by the school board. Encumbrances are not considered in the budget process nor in the regular district accounting.

Once a budget is approved, it can be amended by school personnel with approval by the school board. Amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year-end as dictated by law. Individual amendments were not material in relation to the original appropriations. All budget appropriations lapse at year-end.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

Note 1 Summary of Significant Accounting Policies - continued

F. Cash and Temporary Investments

Cash and temporary investments include balances from all funds that are combined and invested to the extent available in various securities as authorized by state law. Earnings from the pooled investments are allocated to the respective funds on the basis of applicable cash balance participation by each fund.

Short-term, highly liquid debt instruments (including commercial paper, bankers' acceptances, and U.S. Treasury and agency obligations) purchased with a remaining maturity of one year or less are reported at amortized cost. Other investments are reported at fair value.

The school District uses the average cash balance method of allocating investment income to the various funds.

G. Accounts Receivable

Represents amounts receivable from individuals, firms, and corporations for goods and services furnished by the District. No substantial losses are anticipated from present receivable balances, therefore, no allowance for uncollectible accounts is deemed necessary.

H. Inventories

Inventories consist of expendable supplies held for consumption and are stated at moving, weighted average cost. Inventory of the General Fund is recorded as expenditure when items are issued from central stores. Accordingly inventory items on hand at the school are not included in inventory. Inventory of the Food Service Fund is recorded as expenditure when items are used. United States Department of Agriculture (USDA) commodities received are recorded at cost determined using the USDA standard price list and are included in the Food Service Fund inventory when received. Revenue is recognized and the expenditure is recorded when commodities are used.

I. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepayments. Prepaid items are reported using the consumption method and recorded as expenditure at the time of consumption.

J. Property Tax Recognition

The levy certification is made in December of each year. The tax levy is collectible as of January 2nd of the following year and the taxes are due to the county treasurer in May and October of each year. The taxes levied during the fall of the year are recognized in the subsequent fiscal year for the school district.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

Note 1 Summary of Significant Accounting Policies - continued

K. Property Tax Recognition - continued

Current taxes receivable includes the amount of Homestead Market Value Credit Aid and Disparity Reduction Aid to be received after July 1, 2019, and will be recognized as revenue during the fiscal year ending June 30, 2020. The delinquent taxes receivable are reserved as 100% uncollectible except for the amount received during the first sixty days of the subsequent fiscal year.

L. Capital Assets

Capital assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded at their estimated fair market value at the date of donation. The District defines capital assets as those with an initial, individual cost of \$2,000 or more, which benefit more than one fiscal year. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are recorded in the district-wide financial statements, but are not reported in the fund financial statements. Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are sold for an immaterial amount or scrapped when declared as no longer fit or needed for public school purposes by the District, no salvage value is taken into consideration for depreciation purposes. Useful lives vary from 20 to 50 years for buildings and improvements, and 5 to 20 years for equipment and vehicles. Land is not depreciated.

The District does not possess any material amounts of infrastructure capital assets, such as sidewalks and parking lots. Such items are considered to be part of the cost of buildings or other improvable property.

M. Long-Term Obligations

In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bond issuance costs, if material, are also reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums or discounts on debt issuances are reported as other financing sources or uses, respectively. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

Note 1 Summary of Significant Accounting Policies - continued

N. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expenditure/expense) until then. The District has only one item that qualifies for reporting in this category, "Related to Pensions".

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has only two types, Property Taxes Levied for Subsequent Years and Related to Pensions, which arise only under a modified accrual basis of accounting, that qualify for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. This amount is deferred and recognized as an inflow of resources in the period that the amounts become available.

O. Fund Equity

Fund balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The following are the five fund balance categories used by the District:

Non-Spendable Fund Balance

Fund balance amounts that are not in a spendable form or are legally or contractually required to be maintained intact.

Restricted Fund Balance

Fund balance amounts that can be spent only for specific purposes imposed by laws or regulations, external resource providers, constitutional provisions or enabling legislation.

Committed Fund Balance

Fund balance amounts that can be used only for the specific purpose determined by a formal action of the government's highest level of decision making authority.

The District's highest level of decision making authority is the district school board. In order to establish, modify or rescind a committed fund balance amount, the school board would need to approve the action at a school board meeting.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

Note 1 Summary of Significant Accounting Policies - continued

O. Fund Equity- continued

Assigned Fund Balance

Fund balance amounts that are intended to be used by the government for a specific purpose, but do not meet the criteria to be classified as restricted or committed.

The District school board has delegated the authority to assign fund balance amounts to the business manager and/or superintendent. Assigned amounts or changes to assigned amounts are presented to the school board for review.

Unassigned Fund Balance

Fund balance amounts that are available for any purpose. These amounts represent the remaining fund balance in the General Fund that has not been classified as non-spendable, restricted, committed or assigned. Also for funds other than the general fund, unassigned fund balance is used to report a deficit fund balance.

The school district will strive to maintain a fund balance of between 25% and 34% of total operating expenditures to fund balance. The fund balance shall be defined as the sum of the restricted, committed, assigned and unassigned fund balances in the General Fund, Food Service Fund and the Community Service Fund. Total operating expenditures will include the expenditures in the funds noted above.

If resources from more than one fund balance classification could be spent, the school district established the following order for resource use: non-spendable fund balance, restricted fund balance, committed fund balance, assigned fund balance and unassigned fund balance. Journal entries at the end of the fiscal year may be used to accomplish this.

P. Net Position

Net position represents the difference between assets and liabilities in the District-wide and Fiduciary Fund financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net position is reported as restricted in the District-wide financial statement when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws or regulations of other governments.

Q. Pensions

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and Teachers Retirement Association (TRA) and additions to/deductions from PERA's and TRA's fiduciary net position have been determined on the same basis as they are reported by PERA and TRA. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

Note 1 Summary of Significant Accounting Policies - continued

R. Certain Comparative Data and Reclassifications

Certain comparative total data for the prior year have been presented in the District-wide and fund financial statements in order to provide an understanding of the changes in the financial position and operations. Such comparative total data does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended June 30, 2018, from which the summarized information was derived.

S. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Note 2 Deposits and Investments

A. Deposits

Minnesota Stat. 118A.02 and 118A.04 authorize the District to designate a depository for public funds and to invest in certificates of deposit. Minnesota Stat. 118A.03 requires that all District deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit plus accrued interest at the close of the financial institution's banking day, not covered by insurance or bonds.

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations rated "A" or better; revenue obligations rated "AA" or better; irrevocable standby letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of June 30, 2019, none of the District's bank balance of \$515,551 was exposed to custodial credit risk.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

Note 2 Cash and Investments - continued

B. Investments

Minnesota Stat. 118A.04 and 118A.05 generally authorize the following types of investments as available to the District:

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as "high risk" by Minnesota Stat. 118A.04, subd. 6;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- (3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (4) bankers' acceptances of United States banks;
- (5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and
- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

The District's investments are potentially subject to various risks including the following:
Custodial Credit Risk

The risk that in the event of a failure of the counter party to an investment transaction, a district will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party.

Credit Risk

The risk that an issuer or other counter party to an investment will not fulfill its obligations to the holder of the investment.

Concentration of Credit Risk

The risk of loss that may be caused by the District's investment in a single issuer.

Interest Rate Risk

The risk that changes in the market interest rates will adversely affect the fair value of an investment.

The District has no internal policies that limit deposits on investment choices or address these potential risks beyond the statutory limitations described above.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

Note 2 Cash and Investments - continued

B. Investments - continued

	<u>Credit Risk</u>		<u>Concentration Risk</u>	<u>Interest Rate Risk</u>	<u>Carrying Value</u>
	<u>Credit Rating</u>	<u>Rating Agency</u>	<u>Over 5% of Portfolio</u>	<u>Maturity Date</u>	
Investment Pools:					
Minnesota School District Liquid Asset Fund Plus					
Liquid Class	AAAm	S & P	20%	N/A	42,692
MAX Class	AAAm	S & P	80%	N/A	<u>714,049</u>
Total Investments					756,741
Nonnegotiable					
Certificates of					
Deposit					3,200
Cash on Hand					1,950
Deposits					<u>512,838</u>
Total Cash and Investments					<u>1,274,729</u>

Cash and investments are included on the basic financial statements as follows:

Cash and temporary investments – statement of net position	1,271,012
Cash and temporary investments – statement of fiduciary net position	<u>3,717</u>
	<u>1,274,729</u>

The Minnesota School District Liquid Asset Fund is an external investment pool not registered with the Securities Exchange Commission (SEC) that follows the same regulatory rules of the SEC under rule 2a7. The fair value of the position in the pool is the same as the value of the pool shares.

The Minnesota School District Liquid Asset Fund issues a publicly available financial report. That report may be obtained on the Internet at www.msdlaf.org.

Note 3 Due From Department of Education

Amounts due from the Department of Education are aids and reimbursements receivable for the fiscal years as follows:

	<u>June 30</u>	
<u>General Fund</u>	<u>2019</u>	<u>2018</u>
General Education Aid	28,816	98,893
Other State Credits	3,622	3,350
Special Education	<u>5,785</u>	<u>5,575</u>
Total General Fund	38,223	107,818

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

Note 3 Due From Department of Education - continued

Special Revenue Funds

Community Service Fund

Early Childhood and Family Education	87	89
Other State Credits	<u>1,398</u>	<u>1,285</u>
Total Special Revenue Funds	1,485	1,374

Debt Service Fund

Other State Credits	<u>26,645</u>	<u>3,153</u>
Total All Funds	<u>66,353</u>	<u>112,345</u>

Note 4 Capital Assets

Capital asset activity for the year ended June 30, 2019 was as follows:

	<u>Balance</u> <u>07/01/18</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>06/30/19</u>
Capital assets not depreciated				
Land	9,694			9,694
Capital assets depreciated				
Land Improvements	10,089,080			10,089,080
Buildings	1,044,999	15,354		1,060,353
Equipment	279,196	21,299		300,495
Total capital assets depreciated	<u>11,413,275</u>	<u>36,653</u>	<u>-0-</u>	<u>11,449,928</u>
Less accumulated depreciation for				
Land Improvements	(3,783,407)	(504,454)		(4,287,861)
Buildings	(892,938)	(8,485)		(901,423)
Equipment	(190,482)	(15,072)		(205,554)
Total Accumulated Depreciation	<u>(4,866,827)</u>	<u>(528,011)</u>	<u>-0-</u>	<u>(5,394,838)</u>
Total capital assets depreciated – net	<u>6,546,448</u>	<u>(491,358)</u>		<u>6,055,090</u>
Net Capital Assets	<u>6,556,142</u>	<u>(491,358)</u>	<u>-0-</u>	<u>6,064,784</u>

Depreciation expense of \$528,011 for the year ended June 30, 2019 was charged to the following governmental functions:

Regular Instruction	3,383
Sites, Buildings, and Equipment	<u>524,628</u>
Total	<u>528,011</u>

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

Note 5 Due To Other Minnesota School Districts

The amounts due to other Minnesota School Districts are as follows:

	<u>June 30</u>	
<u>General Fund</u>	<u>2019</u>	<u>2018</u>
Independent School District No. 414	97,817	
Independent School District No. 347	50	
SW/WC Service Coop – Reimbursements	<u>26,392</u>	<u>22,732</u>
Total General Fund	<u>124,259</u>	<u>22,732</u>
Total All Funds	<u>124,259</u>	<u>22,732</u>

Note 6 Due to Other Governmental Units

Amounts due to Other Governmental Units are as follows:

	<u>June 30</u>	
<u>General Fund</u>	<u>2019</u>	<u>2018</u>
Minnesota Department of Revenue		
Sales Tax	<u>-0-</u>	<u>68</u>
Total General Fund	<u>-0-</u>	<u>68</u>

Note 7 Certificates of Indebtedness

The Certificates of Indebtedness are as follows:

	<u>June 30,</u>			<u>June 30,</u>
	<u>2018</u>	<u>Additions</u>	<u>Retirements</u>	<u>2019</u>
Minnesota Tax and Aid				
Anticipation Certificates of				
Indebtedness, Series 2016A				
Maturity September 14, 2018,				
Interest rate 2%	<u>297,155</u>	<u>-0-</u>	<u>297,155</u>	<u>-0-</u>
Total	<u>297,155</u>	<u>-0-</u>	<u>297,155</u>	<u>-0-</u>

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

Note 8 Long-Term Liabilities

A. Bonds Payable

Bonds payable at June 30, 2019 are comprised of the following items:

	<u>Balance</u> <u>June 30, 2019</u>
General Obligation Judgment Bonds, Series 2014, Due in annual installments of \$115,000 to \$160,000 through February 1, 2025, Interest at 2.00% to 3.45%	890,000
General Obligation School Building Refunding Bonds Series 2016A, due in annual installments of \$210,000 to \$580,000 through February 1, 2034, Interest at 2.00% to 3.00%.	<u>7,245,000</u>
Total Bonds Payable	<u>8,135,000</u>

The annual requirements to amortize the bonds payable outstanding as of June 30, 2019, including interest payments, are listed below.

<u>Year Ended</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	550,000	188,975	738,975
2021	560,000	177,345	737,345
2022	570,000	165,165	735,165
2023	590,000	152,388	742,388
2024	600,000	138,863	738,863
2025-2029	2,550,000	508,858	3,058,858
2030-2034	<u>2,715,000</u>	<u>232,590</u>	<u>2,947,590</u>
Total	<u>8,135,000</u>	<u>1,564,184</u>	<u>9,699,184</u>

B. Changes in Long-Term Liabilities

The following is a schedule of the changes in Long-Term Liabilities:

	<u>Balance</u> <u>7/1/18</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>6/30/19</u>	<u>Due Within</u> <u>One Year</u>
Bonds Payable	<u>8,670,000</u>		<u>535,000</u>	<u>8,135,000</u>	<u>550,000</u>
Total	<u>8,670,000</u>	<u>-0-</u>	<u>535,000</u>	<u>8,135,000</u>	<u>550,000</u>

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

Note 9 Fund Balances

Non-Spendable Fund Balance

The District has the following non-spendable fund balances as of June 30, 2019:

General Fund	1,084
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Special Revenue Funds

Food Service

Inventory	5,039
Total Special Revenue Funds	<u>5,039</u>
Total All Funds	<u><u>6,123</u></u>

Restricted Fund Balance

The District has various restricted fund balances that are based on state requirements to track certain program funding, to provide funding for long-term debt requirements, or for other requirements. The District has the following restricted fund balances as of June 30, 2019:

General Fund

Deferred Maintenance	20,853
Operating Capital	9,683
Gifted & Talented	3,359
Basic Skills	549
Safe Schools	4,536
Total General Fund	<u>38,980</u>

Special Revenue Funds

Food Service

Restricted	4,812
Total Food Service	<u>4,812</u>

Community Services

Community Education	36,120
Early Childhood and Family Education	38,192
School Readiness	17,847
Restricted	3,629
Total Community Services	<u>95,788</u>
Total Special Revenue Funds	<u>100,600</u>

Debt Service

Restricted	282,139
Total Debt Service Fund	<u>282,139</u>
Total All Funds	<u><u>421,719</u></u>

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

Note 9 Fund Balances – continued

Committed Fund Balance

Fund balance amounts that can be used only for the specific purpose determined by a formal action of the government's highest level of decision making authority.

The District's highest level of decision making authority is the district school board. In order to establish, modify or rescind a committed fund balance amount, the school board would need to approve the action at a school board meeting.

The District has no committed fund balances as of June 30, 2019.

Assigned Fund Balance

Fund balance amounts that are intended to be used by the government for a specific purpose, but do not meet the criteria to be classified as restricted or committed.

The District school board has delegated the authority to assign fund balance amounts to the district finance director and superintendent. Assigned amounts or changes to assigned amounts are presented to the school board for review.

The District has no assigned fund balances as of June 30, 2019.

Unassigned Fund Balance

Fund balance amounts that are available for any purpose. These amounts represent the remaining fund balance in the General Fund that has not been classified as non-spendable, restricted, committed or assigned. Also for funds other than the general fund, unassigned fund balance is used to report a deficit fund balance.

The District has the following unassigned fund balances as of June 30, 2019:

General Fund

General Fund	202,892
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Special Revenue Fund

Food Service	(9,851)
Total All Funds	<u>193,041</u>

Stabilization Amounts

Amounts formally set aside by the governmental unit for use in emergency situations such as revenue shortages or budgetary imbalances.

The District has no stabilization amounts as of June 30, 2019.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

Note 10 Defined Benefit Pension Plans

A. Public Employees Retirement Association (PERA)

1. Plan Description

The District participates in the following defined benefit pension plans administered by the Public Employees Retirement Association (PERA). PERA's defined benefit pension plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401 (a) of the Internal Revenue Code.

General Employees Retirement Plan (GERF)

All full-time and certain part-time employees of the District other than teachers are covered by the General Employees Retirement Fund (GERF). GERF members belong to either the Coordinated Plan. Coordinated Plan members are covered by Social Security.

2. Benefits Provided

PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state Legislature. Vested, terminated employees who are entitled to benefits, but are not receiving them yet, are bound by the provisions in effect at the time they last terminated their public service.

GERF Benefits

General Employees Plan benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 1.2% of average salary for each of the first ten years of service and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 1.7% for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. General Employees Plan benefit recipients receive a future annual 1.0 percent increase. If the General Employees Plan is at least 90 percent funded for two consecutive years, the benefit increase will revert to 2.5 percent. If, after reverting to a 2.5 percent benefit increase, the funding ratio declines to less than 80 percent for one year or less than 85 percent for two consecutive years, the benefit increase will decrease to 1.0 percent. A benefit recipient, who has been receiving a benefit for at least 12 full months as of June 30, will receive a full increase. Members receiving benefits for at least one month but less than 12 full months as of June 30, will receive a pro rata increase.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

Note 10 Defined Benefit Pension Plans - continued

A. Public Employees Retirement Association (PERA)-continued

3. Contributions

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state legislature.

GERF Contributions

Coordinated Plan members were required to contribute 6.5% of their annual covered salary in fiscal year 2019; the District was required to contribute 7.5% for Coordinated Plan members. The District's contributions to the GERF for the year ended June 30, 2019, were \$12,023. The District's contributions were equal to the required contributions for each year as set by state statute.

4. Pension Costs

At June 30, 2019, the District reported a liability of \$144,237 for its proportionate share of the GERF's net pension liability. The District's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16 million. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the District totaled \$4,757. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2017, through June 30, 2018 relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2018, the District's proportion share was 0.0026 percent, which is an increase in proportion share of .0002 percent as of June 30, 2017.

District's proportionate share of the net pension liability	\$144,237
State of Minnesota's proportionate share of the net pension Liability associated with the District	<u>\$ 4,757</u>
Total	<u>\$148,994</u>

For the year ended June 30, 2019, the District recognized pension expense of \$8,365 for its proportionate share of GERF's pension expense. In addition, the District recognized an additional \$1,109 as grant revenue for its proportionate share of the State of Minnesota's contribution of \$16 million to the General Employees Fund.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

Note 10 Defined Benefit Pension Plans - continued

A. Public Employees Retirement Association (PERA)-continued

4. Pension Costs - continued

At June 30, 2019, the District reported its proportionate share of GERF's deferred outflows of resources and deferred inflows of resources from the following sources:

	Deferred Outflows Of Resources	Deferred Inflows Of Resources
Differences between expected and actual economic experience	\$3,537	\$4,369
Changes in actuarial assumptions	\$14,309	\$15,353
Net collective difference between projected and actual investment earnings		\$12,038
Changes in proportion	\$9,576	\$16,067
Contributions paid to PERA subsequent to the measurement date	\$12,024	
Total	\$39,446	\$47,827

\$12,023 reported as deferred outflows of resources related to pensions resulting from District contributions to GERF subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred outflows and inflows of resources related to GERF pensions will be recognized in pension expense as follows:

Year ended June 30:	Pension Expense Amount
2020	\$153
2021	(\$9,578)
2022	(\$7,970)
2023	(\$3,011)

5. Actuarial Assumptions

The total pension liability in the June 30, 2018, actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50% per year
Active Member Payroll Growth	3.25% per year
Investment Rate of Return	7.50%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2014 tables for the General Employees Plan. Cost of living benefit increases for retirees are assumed to be: one percent per year for all future years for the General Employees Plan.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

Note 10 Defined Benefit Pension Plans - continued

A. Public Employees Retirement Association (PERA) - continued

5. Actuarial Assumptions -continued

Actuarial assumptions used in the June 30, 2018, valuation were based on the results of actuarial experience studies. The most recent six-year experience study in the General Employees Plan was completed in 2015.

The following changes in actuarial assumptions and plan provisions occurred in 2018:

General Employees Fund

Changes in Actuarial Assumptions

- The morality projection scale changed from MP-2015 to MP-2017
- The assumed benefit increase was changed from 1.00 percent per year through 2044 and 2.50 percent per year thereafter to 1.25 percent per year

Changes in Plan Provisions:

- The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024.
- Interest credited on member contributions decreased from 4.0 percent to 3.0 percent, beginning July 1, 2018.
- Deferred augmentation was changed from 0.00 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Contribution stabilizer provisions were repealed.
- Post-retirement benefit increases were changed from 1.0 percent per year with a provision to increase to 2.5 percent upon attainment of 90 percent funding ratio to 50 percent of the Social Security Cost of Living Adjustment, not less than 1.0 percent and not more than 1.5 percent, beginning January 1, 2019.
- For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches Normal Retirement Age. Does not apply to Rule of 90 retirees, disability benefit recipients, or survivors.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

Note 10 Defined Benefit Pension Plans - continued

A. Public Employees Retirement Association (PERA) - continued

6. Pension Costs

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Stocks	36%	5.10%
International Stocks	17%	5.30%
Bonds	20%	0.75%
Alternative Assets	25%	5.90%
Cash	2%	0.00%
Total	100%	

7. Discount Rate

The discount rate used to measure the total pension liability in 2018 was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees Fund was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

8. Pension Liability Sensitivity

The following presents the District's proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate 1 percentage point lower or 1 percentage point higher than the current discount rate:

Sensitivity of Net Pension Liability at Current Single Discount Rate		
	General Employees Fund	
1% Lower	6.50%	\$234,404
Current Discount Rate	7.50%	\$144,237
1% Higher	8.50%	\$ 69,807

9. Pension Plan Fiduciary Net Position

Detailed information about each pension plan's fiduciary net position is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the Internet at www.mnpera.org.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

Note 10 Defined Benefit Pension Plans – continued

B. Teachers Retirement Association

1. Plan Description

The Teachers Retirement Association (TRA) is an administrator of a multiple employer, cost-sharing, defined benefit retirement fund. TRA administers a Basic Plan (without Social Security coverage) and a Coordinated Plan (with Social Security coverage) in accordance with Minnesota Statutes, Chapters 354 and 356. TRA is a separate statutory entity and administered by a Board of Trustees. The Board consists of four active members, one retired member and three statutory officials.

Teachers employed in Minnesota's public elementary and secondary school, charter schools, and certain educational institutions maintained by the state (except those employed by St. Paul schools or Minnesota State colleges and universities).

Educators first hired by Minnesota State may elect either TRA coverage or coverage through Minnesota State's Individual Retirement Account Plan (IRAP) within one year of eligible employment.

2. Benefits Provided

TRA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by Minnesota Statute and vest after three years of service credit. The defined retirement benefits are based on a member's highest average salary for any five consecutive years of allowable service, age, and a formula multiplier based on years of credit at termination of service.

Two methods are used to compute benefits for TRA's Coordinated and Basic Plan members. Members first employed before **July 1, 1989** receive the greater of the Tier I or Tier II as described.

<u>Tier 1</u>	<u>Step Rate Formula</u>	<u>Percentage</u>
Basic	First ten years of service	2.2 percent per year
	All years after	2.7 percent per year
Coordinated	First ten years if service years are up to July 1, 2006	1.2 percent per year
	First ten years if service years are July 1, 2006 or after	1.4 percent per year
	All other years of service if service years are up to July 1, 2006	1.7 percent per year
	All other years of service if service years are July 1, 2006 or after	1.9 percent per year

With these provisions:

- (a) Normal retirement age is 65 with less than 30 years of allowable service and age 62 with 30 or more years of allowable service.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

Note 10 Defined Benefit Pension Plans - continued

B. Teachers Retirement Association - continued

2. Benefits Provided - continued

- (b) 3 percent per year early retirement reduction factors for all years under normal retirement age.
- (c) Unreduced benefits for early retirement under a Rule-of-90 (age plus allowable service equals 90 or more).

Tier II: For years of service prior to July 1, 2006, a level formula of 1.7 percent per year for coordinated members and 2.7 percent per year for basic members is applied. For years of service July 1, 2006 and after, a level formula of 1.9 percent per year for Coordinated members and 2.7 for Basic members applies. Beginning July 1, 2015, the early retirement reduction factors are based on rates established under Minnesota Statute. Smaller reductions, for favorable to the members, will be applied to individuals who reach age 62 and have 30 years or more of service credit.

Members first employed **after June 30, 1989**, receive only the Tier II calculation with a normal retirement age that is their retirement age for full Social Security retirement benefits, but not to exceed age 66.

Six different types of annuities are available to members upon retirement. The No Refund Life Plan (A-1) is a lifetime annuity that ceases upon the death of the retiree – no survivor annuity is payable. A retiring member may also choose to provide survivor benefits to a designated beneficiary(ies) by selecting one of the five plans which have survivorship features. Vested members may also leave their contributions in the TRA Fund upon termination of service in order to qualify for a deferred annuity at retirement age. Any member terminating service is eligible for a refund of their employee contributions plus interest.

The benefit provisions stated apply to active plan participants. Vested, terminated employees who are entitled to benefits but not yet receiving them are bound by the provisions in effect at the time they last terminated their public service.

3. Contribution Rate

Per Minnesota Statute, Chapter 354 sets the contribution rates for employers and employees. Contribution rates can only be modified by the state legislature. Rates for each fiscal year ended June 30, 2017, June 30, 2018, and June 30, 2019 were:

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

Note 10 Defined Benefit Pension Plans - continued
B. Teachers Retirement Association - continued
3. Contribution Rate – continued

	June 30, 2017		June 30, 2018		June 30, 2019	
	Employee	Employer	Employee	Employer	Employee	Employer
Basic	11.00%	11.50%	11.00%	11.50%	11.00%	11.71%
Coordinated	7.50%	7.50%	7.50%	7.50%	7.50%	7.71%

The following is a reconciliation of employer contributions in TRA's CAFR "Statement of Changes in Fiduciary Net Position" to the employer contributions used in the Schedule of Employer and Non-Employer Pension Allocations.

Employer contributions reported in TRA's CAFR Statement of Changes in Fiduciary Net Position	\$378,728
Add employer contributions not related to future contribution efforts	522
Deduct TRA's contributions not included in allocations	<u>(471)</u>
Total employer contributions	\$378,779
Total non-employer contributions	<u>35,588</u>
Total contributions reported in <i>Schedule of Employer and Non-Employer Allocations</i>	<u>\$414,367</u>

Amounts reported in the allocation schedules may not precisely agree with the financial statement amounts or actuarial valuations due to the number of decimal places used in the allocations. TRA has rounded percentage amounts to the nearest ten thousandths.

4. Actuarial Assumptions

The total pension liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

Note 10 Defined Benefit Pension Plans - continued

B. Teachers Retirement Association - continued

4. Actuarial Assumptions – continued

Key Methods and Assumptions Used in Valuation of Total Pension Liability	
Actuarial Information	
Valuation Date	July 1, 2018
Experience Study	June 5, 2015 November 6, 2017 (economic assumptions)
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Investment Rate of Return	7.5%
Price Inflation	2.50%
Wage growth rate	2.85% for 10 years and 3.25%, thereafter
Projected Salary Increase	2.85 to 8.85% for 10 years and 3.25-9.25% thereafter
Cost of living adjustment	1.0% for January 2019 through January 2023, then increasing by 0.1% each year up to 1.5% annually
Mortality Assumptions	
Pre-Retirement	RP-2014 white collar employee table, male rates set back six years and female rates set back five years. Generational projection uses the MP-2015 scale.
Post-Retirement	RP-2014 white collar annuitant table, male rates set back three years and female rates set back three years, with further adjustments of the rates. Generational projection uses the MP-2015 scale.
Post-Disability	RP-2014 disabled retiree mortality table, without adjustment.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

Note 10 **Defined Benefit Pension Plans - continued**

B. **Teachers Retirement Association - continued**

4. **Actuarial Assumptions – continued**

The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Allocations of June 30, 2018	Final Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	33%	36%	5.10%
International Equity	16%	17%	5.30%
Private Markets	25%	25%	5.90%
Fixed Income	16%	20%	0.75%
Treasuries	8%	0%	0.50%
Unallocated Cash	2%	2%	0.00%
Total		100%	

The TRA actuary has determined the average of the expected remaining service lives of all members for fiscal year 2016 is 6 years. The “Difference between expected and actual experience” and “Changes of Assumptions” use the amortization period of 6 years in the schedule presented. The amortization period for “Net difference between projected and actual investment earnings on pension plan investments” is over a period of 5 years as required by GASB 68.

Changes in actuarial assumptions since the 2017 valuation:

- The COLA was reduced from 2.0% each January 1 to 1.0%, effective January 1, 2019. Beginning January 1, 2024, the COLA will increase 0.1% each year until reaching the ultimate rate of 1.5% in January 1, 2028.
- Beginning July 1, 2024, eligibility for the first COLA changes to normal retirement age (age 65 to 66, depending on date of birth). However, members who retire under Rule of 90 and members who are at least age 62 with 30 years of service credit are exempt.
- The COLA trigger provision, which would have increased the COLA to 2.5% if the funded ratio was at least 90% for two consecutive years, was eliminated.
- Augmentation in the early retirement reduction factors is phased out over a five-year period beginning July 1, 2019 and ending June 30, 2024 (this reduces early retirement benefits). Members who retire and are at least age 62 with 30 years of service are exempt.
- Augmentation on deferred benefits will be reduced to zero percent beginning July 1, 2019. Interest payable on refunds to members was reduced from 4.0% to 3.0%, effective July 1, 2018. Interest due on payments and purchases from members, employers is reduced from 8.5% to 7.5%, effective July 1, 2018.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

Note 10 Defined Benefit Pension Plans - continued

B. Teachers Retirement Association - continued

4. Actuarial Assumptions-continued

- The employer contribution rate is increased each July 1 over the next 6 years, (7.71% in 2018, 7.92% in 2019, 8.13% in 2020, 8.34% in 2021, 8.55% in 2022, and 8.75% in 2023). In addition, the employee contribution rate will increase from 7.50% to 7.75% on July 1, 2023. The state provides funding for the higher employer contribution rate through an adjustment in the school aid formula.

5. Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent. This is an increase from the discount rate at the prior measurement date of 5.12 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the fiscal 2018 contribution rate, contributions from school districts will be made at contractually required rates (actuarially determined), and contributions from the state will be made at current statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was not projected to be depleted and, as a result, the Municipal Bond Index Rate was not used in the determination of the Single Equivalent Interest Rate (SEIR)

6. Net Pension Liability

On June 30, 2019, the District reported a liability of \$458,508 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis and Minneapolis School District. District proportionate share was 0.0081% at the end of the measurement period and 0.0073% for the beginning of the year.

The pension liability amount reflected a reduction due to direct aid provided to TRA. The amount recognized by the District as its proportionate share of the net pension liability, the direct aid, and total portion of the net pension liability that was associated with the district were as follows:

District's proportionate share of net pension liability	\$458,508
State's proportionate share of the net pension Liability associated with the District	\$43,155

For the year ended June 30, 2019, the District recognized pension expense of (\$340,229). It also recognized (\$30,119) as an increase to pension expense for the support provided by direct aid.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

Note 10 Defined Benefit Pension Plans - continued

B. Teachers Retirement Association – continued

6. Net Pension Liability – continued

On June 30, 2019, the District had deferred resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$13,211	\$11,357
Net difference between projected and actual earnings on plan inv.		\$28,629
Change in assumptions	\$709,635	\$831,711
Changes in proportion		\$376,742
Contributions paid to TRA subsequent to measurement date	\$30,243	
Total	\$753,089	\$1,247,227

\$30,243 reported as deferred outflows of resources related to pensions resulting from District contributions to TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred outflows and inflows of resources related to TRA will be recognized in the pension expense as follows:

2019	(\$38,971)
2020	(\$51,302)
2021	(\$44,806)
2022	(\$238,772)
2023	(\$150,530)

7. Pension Liability Sensitivity

The following presents the net pension liability of TRA calculated using the discount rate of 7.50 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50 percent) or one percentage point higher (8.50 percent) than the current rate

District's proportionate share of NPL		
1 percent decrease (6.50%)	Current (7.50%)	1 percent increase (8.50%)
\$727,651	\$458,508	\$236,468

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

Note 10 Defined Benefit Pension Plans - continued

B. Teachers Retirement Association - continued

7. Pension Liability Sensitivity-- continued

The Employer's proportion of the net pension liability was based on the employer contributions to TRA in relation to TRA's total employer contributions including direct aid contributions from the State of Minnesota, City of Minneapolis and Minneapolis School District.

8. Pension Plan Fiduciary Net Position

Detailed information about the plan's fiduciary net position is available in a separately-issued TRA financial report. That report may be accessed at the TRA Web site www.tra.state.mn.us. Alternatively, a copy of the report may be obtained by writing or calling TRA:

Teachers Retirement Association
60 Empire Drive, Suite 400
St Paul MN 55103-4000
(651) 296-2409
(800) 657-3669

Note 11 Vacation and Sick Leave

Full-time year around employees receive vacation based on their years of service. In the event of termination an employee who has completed at least six months of service is reimbursed for any unused accumulated vacation. Maximum vacation accrual is 30 days at the end of any fiscal year. Vacation pay is charged to operations when taken by the employees of the district.

Full-time year round employees accrue 14 sick days per year and school year employees accrue 11 sick days per year. All employees may accumulate up to 8 times their respective yearly allowance. Sick days do not vest under the District's policy, and accordingly, employees can be paid sick leave only for qualifying absences. Since the employee's accumulating rights to receive compensation for future absences are contingent upon the absences being caused by qualifying events and such amounts cannot be reasonably estimated, a liability for unused sick leave is not recorded in the financial statements.

Full-time and school year employees are granted personal days which are subject to approval by the superintendent and charged to sick leave. Teachers earn 2 personal days per year and are allowed to accrue up to 5 days. Any contingent liability for unused personal days is not recognized in the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019

Note 12 Risk Management

The District is exposed to various risk of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employee health and dental; and natural disasters. Risks of loss associated with workers' compensation claims are insured through participation in the Minnesota School Boards Association Insurance Trust. All other risks of loss are insured by the purchase of commercial insurance. There were no significant reductions in insurance coverage from the previous year.

The Minnesota School Boards Association Insurance Trust is a public entity risk pool currently operated as a common risk management and insurance program for member school districts. The district pays an annual premium based on its annual payroll and an experience modification factor for workers' compensation coverage.

Note 13 Subsequent Events

Subsequent events have been evaluated through December 10, 2019, which is the date the financial statements were available to be issued.

Note 14 Transfers

The following is a schedule of the transfers for the year ended June 30, 2019:

	<u>Transfer In</u>	<u>Transfer Out</u>
General		3,102
Food Service	3,102	

The transfer was made to zero out the Food Service Fund loss of \$3,102 for the year ended June 30, 2019.

Note 15 Inter-fund Receivables/Payables

Below is a schedule of inter-fund receivables and payables at June 30, 2019.

Fund	Due from Other Funds	Due to Other Funds
General	1,366	
Food Service		<u>1,366</u>
Total All Funds	<u>1,366</u>	<u>1,366</u>

The inter-fund receivables and payables are the result of a cash overdraft in the Food Service Funds portions of the District's pooled cash account.

Note 16 Excess Expenditures over Budget Appropriations

The following fund had excess expenditures over budget appropriations:

Food Service Fund	1,164
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Program needs will be monitored in the future to alleviate expenditure excesses in the Food Service Fund.

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AND EMPLOYER CONTRIBUTIONS
JUNE 30, 2019

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

Actuarial Valuation Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	State's Proportionate Share of the Net Pension Liability Associated with the District (if Applicable) (a)	Total (a) + (b)	Employer's Covered- Employee Payroll (c)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered- Employee Payroll [(a+b)/c]	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
<u>Pensions</u>							
PERA							
June 30, 2014	0.0036%	169,110			199,151	84.9%	78.7%
June 30, 2015	0.0030%	155,476			184,654	84.2%	78.2%
June 30, 2016	0.0027%	219,227			170,094	128.9%	68.9%
June 30, 2017	0.0024%	153,214	1,912	155,126	153,480	101.1%	75.9%
June 30, 2018	0.0026%	144,237	1,109	145,346	172,800	84.1%	79.5%
TRA							
June 30, 2014	0.0165%	760,308			753,049	101.0%	81.5%
June 30, 2015	0.0101%	624,785			502,632 #	124.3%	81.5%
June 30, 2016	0.0087%	2,075,158			452,027	459.1%	44.9%
June 30, 2017	0.0073%	1,616,907	156,600	1,773,507	435,076	407.6%	51.57%
June 30, 2018	0.0081%	458,508	43,155	501,663	435,076		78.07%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended June 30,	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a - b)	Covered- Employee Payroll (d)	Contributions as a Percentage of Covered- Employee Payroll (b/d)
<u>Pensions</u>					
PERA					
2014	13,584	13,584	-0-	199,151	6.8%
2015	12,828	13,023	(195)	184,654	7.1%
2016	12,397	12,524	(127)	170,094	7.4%
2017	11,511	11,868	(357)	153,480	7.7%
2018	12,960	12,960	-0-	172,800	7.5%
TRA					
2014	52,713	52,713	-0-	753,049	7.0%
2015	38,499	35,514	2,985	502,632	7.1%
2016	33,902	33,902	-0-	452,027	7.5%
2017	32,631	32,631	-0-	435,076	7.5%
2018	30,342	30,342	-0-	404,560	7.5%

See Note 10, Defined Benefit Pension Plans, for more information

The District implemented GASB Statement No. 68 for fiscal year ended June 30, 2015.
Information for prior years is not available. Additional years will be reported as they become available.

GENERAL FUND
BALANCE SHEET
JUNE 30, 2019

<u>Assets</u>	<u>2019</u>	<u>2018</u>
Cash and Investments	604,927	685,662
Current Property Taxes Receivable	135,366	97,741
Delinquent Property Taxes Receivable	4,615	5,427
Accounts Receivable	1,244	293
Due From Department of Education	38,223	107,818
Due From Other Minnesota School Districts	2,364	
Due From Other Funds	1,366	
Prepaid Expense	1,084	
Total Assets	<u>789,189</u>	<u>896,941</u>
<u>Liabilities, Deferred Inflows of Resources and Fund Balances</u>		
<u>Liabilities</u>		
Salaries Payable	31,528	30,358
Accounts Payable	10,431	14,138
Short Term Indebtedness		297,964
Interest Payable		4,751
Due to Other Governmental Units		68
Due to Other Minnesota School Districts	124,259	22,732
Payroll Deductions	<u>27,285</u>	<u>26,996</u>
Total Liabilities	193,503	397,007
<u>Deferred Inflows of Resources</u>		
Unearned Revenue-Delinquent Taxes	4,615	9,427
Property Taxes Levied for Subsequent Years	<u>348,115</u>	<u>264,668</u>
Total Deferred Inflows of Resources	352,730	274,095
<u>Fund Equity</u>		
Fund Balance-Nonspendable	1,084	
Fund Balance-Restricted	38,980	31,844
Fund Balance-Unassigned	<u>202,892</u>	<u>193,995</u>
Total Fund Equity	<u>242,956</u>	<u>225,839</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>789,189</u>	<u>896,941</u>

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2019

	Year Ended June 30			
	2019			2018
			Over/(Under)	
<u>Revenues</u>	<u>Budget</u>	<u>Actual</u>	<u>Budget</u>	<u>Actual</u>
<u>Local Property Tax Levy</u>				
Local Tax Levy	265,721	269,099	3,378	301,798
	265,721	269,099	3,378	301,798
 <u>Other Local and County Revenues</u>				
County Apportionment	5,925	4,251	(1,674)	12,366
Gifts	7,500		(7,500)	13,707
Interest Income	13,600	7,531	(6,069)	5,707
Rent of Facilities	2,475		(2,475)	2,476
Other Revenues	12,965	8,575	(4,390)	15,543
Total Other Local and County Revenues	42,465	20,357	(22,108)	49,799
 <u>Revenue From State Sources</u>				
Disparity Reduction Aid	695	696	1	593
Endowment Fund Apportionment	5,925	6,152	227	5,387
General Education Aid	1,256,360	1,204,563	(51,797)	1,267,391
Market Value Credit	3,254	3,254		2,880
Other State Aids	7,781	7,781		7,190
Special Education	46,883	46,501	(382)	45,342
Total Revenue From State Sources	1,320,898	1,268,947	(51,951)	1,328,783
 <u>Revenue From Federal Sources</u>				
Federal Aid Programs	52,188	64,275	12,087	39,790
 <u>Sales and Other Conversion of Assets</u>				
Sale of Materials	600	818	218	611
Total Sales and Other Conversion of Assets	600	818	218	611
Total Revenues	1,681,872	1,623,496	(58,376)	1,720,781

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2019

	Year Ended June 30			
	2019			2018
			Over/(Under)	
<u>Expenditures</u>	<u>Budget</u>	<u>Actual</u>	<u>Budget</u>	<u>Actual</u>
<u>District and School Administration</u>				
Dues and Memberships	3,990	4,022	32	3,882
Fixed Charges and Employee Benefits	3,645	3,623	(22)	3,400
Professional Services	1,800	1,341	(459)	1,294
Salaries	24,050	24,197	147	22,997
Total District and School Administration	33,485	33,183	(302)	31,573
 <u>District Support</u>				
Dues and Memberships	25	25		150
Equipment Leased	840	749	(91)	840
Principal	4,432	4,432		3,199
Fixed Charges and Employee Benefits	9,600	8,596	(1,004)	5,032
Professional Services	42,680	38,916	(3,764)	39,325
Salaries	30,590	30,267	(323)	29,571
Other	100	88	(12)	
Supplies	2,350	1,210	(1,140)	2,316
Travel and Transportation	138	137	(1)	166
Total District Support Services	90,755	84,420	(6,335)	80,599
 <u>Regular Instruction</u>				
<u>Elementary School</u>				
Equipment	21,535	22,501	966	6,557
Fixed Charges and Employee Benefits	89,423	85,956	(3,467)	64,347
Professional Services	2,000	1,496	(504)	1,136
Rent	8,800	8,744	(56)	7,725
Repairs and Maintenance	800	810	10	151
Salaries	327,824	316,517	(11,307)	338,796
Supplies	23,970	16,468	(7,502)	15,239
Travel and Transportation	12,600	19,708	7,108	10,492
Tuition to Other Minnesota School Districts	28,650	30,679	2,029	29,236
Total Elementary	515,602	502,879	(12,723)	473,679

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2019

	Year Ended June 30			
	2019			2018
			Over/(Under)	
<u>Expenditures - continued</u>	<u>Budget</u>	<u>Actual</u>	<u>Budget</u>	<u>Actual</u>
<u>Regular Instruction - continued</u>				
<u>Secondary School</u>				
Instructional Supplies	2,500	582	(1,918)	2,672
Travel and Transportation	200	600	400	200
Tuition to Other Minnesota School Districts	363,400	353,463	(9,937)	381,465
Total Secondary	366,100	354,645	(11,455)	384,337
Total Regular Instruction	881,702	857,524	(24,178)	858,016
 <u>Exceptional Instruction</u>				
Fixed Charges and Employee Benefits	16,769	15,516	(1,253)	10,917
Instructional Supplies	345		(345)	939
Professional Services	25	452	427	262
Salaries	83,548	82,445	(1,103)	72,891
Travel and Transportation	2,795	3,029	234	1,938
Tuition to Other Minnesota School Districts	75,793	67,507	(8,286)	56,907
Total Exceptional Instruction	179,275	168,949	(10,326)	143,854
 <u>Instructional Support Services</u>				
Fixed Charges and Employee Benefits	2,363	2,616	253	3,278
Instructional Supplies	200	144	(56)	84
Dues	1,800	1,740	(60)	1,793
Professional Services	13,140	24,515	11,375	20,821
Salaries	15,375	15,283	(92)	21,512
Supplies	770	480	(290)	844
Travel and Transportation	4,501	3,194	(1,307)	2,290
Total Instructional Support	38,149	47,972	9,823	50,622

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2019

	Year Ended June 30			
	2019		2018	
	Budget	Actual	Over/(Under) Budget	Actual
<u>Expenditures - continued</u>				
<u>Pupil Support</u>				
Fixed Charges and Employee Benefits	2,577	14,642	12,065	15,666
Fuel	15,800	18,328	2,528	15,760
Professional Services	345	345		2,597
Pupil Transportation	145,000	141,455	(3,545)	140,486
Salaries	9,311	9,134	(177)	7,631
Supplies	200	48	(152)	75
Transportation Chargebacks		(76,260)	(76,260)	(61,372)
Travel and Transportation	5,068	62,194	57,126	46,216
Total Pupil Support	178,301	169,886	(8,415)	167,059
<u>Site, Building and Equipment</u>				
Equipment	8,356	12,296	3,940	8,077
Fixed Charges and Employee Benefits	2,054	1,834	(220)	1,836
Fuel	2,200	2,159	(41)	1,862
Other		55	55	55
Professional Services	53,400	44,460	(8,940)	40,299
Repair and Maintenance Service	15,350	16,719	1,369	8,614
Salaries	16,100	13,169	(2,931)	17,637
Supplies	21,140	17,947	(3,193)	15,972
Utilities	100,300	114,148	13,848	103,627
Total Site, Building and Equipment	218,900	222,787	3,887	197,979
<u>Fixed Cost Programs</u>				
Interest	7,000	1,208	(5,792)	6,180
Property Insurance	18,500	17,348	(1,152)	17,781
Total Fixed Cost Programs	25,500	18,556	(6,944)	23,961
Total Expenditures	1,646,067	1,603,277	(42,790)	1,553,663
Excess Revenues (Expenditures)				
Before Other Financing Sources (Uses)	35,805	20,219	(15,586)	167,118
<u>Other Financing Sources (Uses)</u>				
Permanent Transfer	(6,556)	(3,102)	3,454	(3,661)
Sale of Equipment	250		(250)	279
Total Other Financing Sources (Uses)	(6,306)	(3,102)	3,204	(3,382)
Excess Revenues (Expenditures) After Other Financing Sources (Uses)	29,499	17,117	(12,382)	163,736
Fund Balance-July 1		225,839		62,103
Fund Balance-June 30		242,956		225,839

ALL SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2019

	Food	Community	Total	
	<u>Service</u>	<u>Service</u>	(Memo Only)	
<u>Assets</u>			<u>2019</u>	<u>2018</u>
Cash and Investments		118,661	118,661	131,001
Current Property Taxes Receivable		8,158	8,158	9,790
Delinquent Property Taxes Receivable		376	376	416
Accounts Receivable	645	395	1,040	9,539
Due from Department of Education		1,485	1,485	1,374
Inventory	5,039		5,039	2,196
Total Assets	<u>5,684</u>	<u>129,075</u>	<u>134,759</u>	<u>154,316</u>
<u>Liabilities, Deferred Inflows of Resources and Fund Balances</u>				
<u>Liabilities</u>				
Accounts Payable	460	807	1,267	1,764
Due to Other Funds	1,366		1,366	
Salaries Payable	3,858	12,344	16,202	19,248
Total Liabilities	<u>5,684</u>	<u>13,151</u>	<u>18,835</u>	<u>21,012</u>
<u>Deferred Inflows of Resources</u>				
Unearned Revenue - Delinquent Taxes		416	416	416
Property Taxes Levied for Subsequent Years		19,720	19,720	24,882
Total Deferred Inflows of Resources	<u>-0-</u>	<u>20,136</u>	<u>20,136</u>	<u>25,298</u>
<u>Fund Equity</u>				
Fund Balance-Nonspendable	5,039		5,039	2,196
Fund Balance-Restricted	4,812	95,788	100,600	115,662
Fund Balance-Unassigned	(9,851)		(9,851)	(9,852)
Total Fund Equity	<u>-0-</u>	<u>95,788</u>	<u>95,788</u>	<u>108,006</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>5,684</u>	<u>129,075</u>	<u>134,759</u>	<u>154,316</u>

SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2019

	Food	Community	Total	
	Service	Service	(Memo Only)	
<u>Revenues</u>			<u>2019</u>	<u>2018</u>
Local Property Tax Levy		30,670	30,670	31,433
Other Local and County Revenues		59,314	59,314	65,074
Revenue from State Sources	4,948		4,948	5,019
Revenue from Federal Sources	31,404	15,193	46,597	45,171
Other	31,941		31,941	30,979
Total Revenues	<u>68,293</u>	<u>105,177</u>	<u>173,470</u>	<u>177,676</u>
<u>Expenditures</u>				
Community Education and Services		117,395	117,395	128,465
Pupil Support Services	71,395		71,395	71,062
Total Expenditures	<u>71,395</u>	<u>117,395</u>	<u>188,790</u>	<u>199,527</u>
Excess Revenues (Expenditures)				
Before Other Financing Sources (Uses)	(3,102)	(12,218)	(15,320)	(21,851)
<u>Other Financing Sources</u>				
Permanent Transfer	3,102		3,102	3,661
Excess Revenues (Expenditures) After				
Other Financing Sources (Uses)	<u>-0-</u>	<u>(12,218)</u>	<u>(12,218)</u>	<u>(18,190)</u>
Excess Revenues (Expenditures)	-0-	(12,218)	(12,218)	(18,190)
Fund Balance-July 1	<u>-0-</u>	<u>108,006</u>	<u>108,006</u>	<u>126,196</u>
Fund Balance-June 30	<u><u>-0-</u></u>	<u><u>95,788</u></u>	<u><u>95,788</u></u>	<u><u>108,006</u></u>

FOOD SERVICE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2019

	Year Ended June 30			2018
	2019		Over/(Under)	
<u>Revenues</u>	<u>Budget</u>	<u>Actual</u>	<u>Budget</u>	<u>Actual</u>
<u>Revenue From State Sources</u>				
Lunch Reimbursement	2,500	2,773	273	2,932
Other State Aid	2,100	2,175	75	2,087
Total Revenue from State Sources	4,600	4,948	348	5,019
<u>Revenue From Federal Sources</u>				
Breakfast Reimbursement	5,900	5,660	(240)	6,362
Commodities	3,000	5,230	2,230	2,951
Lunch Reimbursement	20,000	20,514	514	22,090
Total Revenue From Federal Sources	28,900	31,404	2,504	31,403
<u>Sales and Other Conversion of Assets</u>				
Sale of Lunches	30,175	31,941	1,766	30,979
Total Revenues	63,675	68,293	4,618	67,401
<u>Expenditures</u>				
<u>Pupil Support Services</u>				
Commodities	4,800	5,165	(365)	2,939
Fixed Charges and Employee Benefits	3,855	3,657	198	3,926
Food	23,500	23,034	466	24,094
Milk	8,370	10,256	(1,886)	9,746
Other	650	588	62	665
Repairs and Maintenance	750	1,047	(297)	378
Salaries	27,306	26,282	1,024	28,148
Supplies	1,000	1,366	(366)	1,166
Total Expenditures	70,231	71,395	(1,164)	71,062
Excess Revenues (Expenditures)				
Before Other Financing Sources (Uses)	(6,556)	(3,102)	3,454	(3,661)
<u>Other Financing Sources</u>				
Permanent Transfer	6,556	3,102	(3,454)	3,661
Excess Revenues (Expenditures) After				
Other Financing Sources (Uses)	-0-	-0-	-0-	-0-
Fund Balance-July 1		-0-		-0-
Fund Balance-June 30		-0-		-0-

COMMUNITY SERVICE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2019

	Year Ended June 30			2018
	2019		Over/(Under)	
<u>Revenues</u>	<u>Budget</u>	<u>Actual</u>	<u>Budget</u>	<u>Actual</u>
<u>Local Property Tax Levy</u>				
Local Tax Levy	32,030	30,056	(1,974)	30,134
Misc. Local Taxes	840	614	(226)	1,299
Total Local Property Tax Levies	32,870	30,670	(2,200)	31,433
<u>Other Local and County Revenues</u>				
Fees from Patrons	17,100	19,886	2,786	26,062
Grant	37,500	37,500		37,700
Interest Income	190	1,928	1,738	1,312
Total Other Local and County Revenues	54,790	59,314	4,524	65,074
<u>Revenue From State Sources</u>				
Disparity Aid	177	178	1	182
Homestead/Agriculture Credit	866	866		885
Other State Aids	13,803	14,149	346	12,701
Total Revenue From State Sources	14,846	15,193	347	13,768
Total Revenues	102,506	105,177	2,671	110,275
<u>Expenditures</u>				
<u>Community Education and Services</u>				
Equipment				1,449
Fixed Charges and Employee Benefits	17,425	18,154	(729)	13,572
Instructional Supplies	2,000	820	1,180	1,960
Other	1,475	1,366	109	1,143
Rent	9,205	6,228	2,977	10,343
Salaries	73,523	75,565	(2,042)	82,656
Supplies	6,345	2,952	3,393	11,063
Travel	14,946	12,310	2,636	6,279
Total Expenditures	124,919	117,395	7,524	128,465
Excess Revenues (Expenditures)	(22,413)	(12,218)	10,195	(18,190)
Fund Balance-July 1		108,006		126,196
Fund Balance-June 30		95,788		108,006

DEBT SERVICE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2019

	Year Ended June 30			2018
	2019		Better/(Worse)	
<u>Revenues</u>	<u>Budget</u>	<u>Actual</u>	<u>Than Budget</u>	<u>Actual</u>
<u>Local Property Tax Levy</u>				
Local Tax Levy	498,437	502,679	4,242	731,688
Misc. Local Taxes	24,861	18,095	(6,766)	38,351
Total Local Property Tax Levy	523,298	520,774	(2,524)	770,039
<u>Other Local and County Revenues</u>				
Interest Income	36,530	8,429	(28,101)	68,365
Total Other Local and County Revenues	36,530	8,429	(28,101)	68,365
<u>Revenue From State Sources</u>				
Disparity Aid	5,351	5,352	1	5,381
Homestead Credit	234,503	234,503		
Market Value Credit	26,592	26,592		26,144
Total Revenue From State Sources	266,446	266,447	1	31,525
Total Revenues	826,274	795,650	(30,624)	869,929
<u>Expenditures</u>				
Bond Interest	199,900	199,878	22	519,675
Bond Principal	535,000	535,000		7,980,000
Other Bond Expenses	4,000	3,800	200	3,600
Total Expenditures	738,900	738,678	222	8,503,275
Excess Revenues (Expenditures)	87,374	56,972	(30,402)	(7,633,346)
Fund Balance-July 1		225,167		7,858,513
Fund Balance-June 30		282,139		225,167

UNIFORM FINANCIAL ACCOUNTING & REPORTING STANDARDS
COMPLIANCE TABLE
FOR THE YEAR ENDED JUNE 30, 2019

	Audit	UFARS	Audit - UFARS
<u>01 GENERAL FUND</u>			
Total Revenues	<u>1,623,496</u>	<u>1,623,495</u>	<u>1</u>
Total Expenditures	<u>1,603,277</u>	<u>1,603,275</u>	<u>2</u>
Non Spendable:			
4.60 Non Spendable	1,084	1,084	-0-
Restricted:			
4.67 Deferred Maintenance	20,853	20,854	(1)
4.24 Operating Capital	9,683	9,683	-0-
4.38 Gifted & Talented	3,359	3,359	-0-
4.59 Basic Skills Extended Time	549	549	-0-
4.49 Safe Schools	4,536	4,536	-0-
Unassigned:			
4.22 Unassigned	202,892	202,893	(1)
<u>02 FOOD SERVICE</u>			
Total Revenues	<u>68,293</u>	<u>68,293</u>	<u>-0-</u>
Total Expenditures	<u>71,395</u>	<u>71,396</u>	<u>(1)</u>
Non Spendable:			
4.60 Non Spendable	5,039	5,039	-0-
Restricted:			
4.64 Restricted Fund Balance	4,812	4,812	-0-
Unreserved:			
4.63 Unassigned	(9,851)	(9,852)	1
<u>04 COMMUNITY SERVICE</u>			
Total Revenues	<u>105,177</u>	<u>105,176</u>	<u>1</u>
Total Expenditures	<u>117,395</u>	<u>117,395</u>	<u>-0-</u>
Restricted:			
4.31 Community Education	36,120	36,120	-0-
4.32 Early Child & Family Education	38,192	38,192	-0-
4.44 School Readiness	17,847	17,847	-0-
4.64 Restricted Fund Balance	3,629	3,630	(1)
<u>07 DEBT SERVICE</u>			
Total Revenues	<u>795,650</u>	<u>795,650</u>	<u>-0-</u>
Total Expenditures	<u>738,678</u>	<u>738,678</u>	<u>-0-</u>
Restricted:			
4.64 Restricted	282,139	282,143	(4)
<u>07 TRUST</u>			
Total Revenues	<u>28</u>	<u>28</u>	<u>-0-</u>
Total Expenditures	<u>250</u>	<u>250</u>	<u>-0-</u>
Unassigned:			
4.22 Unassigned	3,716	3,716	-0-

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL
CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT
AUDITING STANDARDS

To The Board of Education
Independent School District No. 403
Ivanhoe Public Schools
Ivanhoe, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of the Independent School District No. 403, Ivanhoe Public Schools, Ivanhoe, Minnesota, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Independent School District No. 403's basic financial statements and have issued our report thereon dated September 17, 2019.

Internal Control Financial Reporting

In planning and performing our audit, we considered the Independent School District No. 403's internal control over financial reporting to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Independent School District No. 403's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Independent School District No. 403's internal control over financial reporting.

Independent School District No. 403
Ivanhoe Public Schools
Ivanhoe, Minnesota

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies, and, therefore, material weaknesses may exist that were not identified. However, as described in the accompanying Schedule of Findings and Recommendations, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the Independent School District No. 403's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Recommendations that we consider to be material weaknesses (2019-I and 2019-II).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Independent School District No. 403's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Minnesota Legal Compliance

The *Minnesota Legal Compliance Audit Guide for School Districts*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains seven main categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and uniform financial accounting and reporting standards for school districts. Our study included all of the listed categories.

In connection with our audit, nothing came to our attention that caused us to believe that the Independent School District No. 403 failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for School Districts*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Independent School District No. 403's noncompliance with the above referenced provisions.

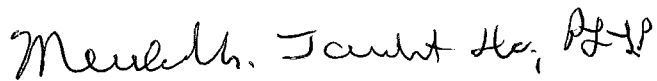
Independent School District No. 403
Ivanhoe Public Schools
Ivanhoe, Minnesota

Independent School District No. 403's Response to Findings

The Independent School District No. 403's response to the findings identified in our audit is described in the accompanying schedule of findings and recommendations. The Independent School District No. 403's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.



Meulebroeck, Taubert & Co., PLLP
Certified Public Accountants
Pipestone, Minnesota

September 17, 2019

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INDEPENDENT AUDITOR'S REPORT ON THE
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
OF THE STUDENT ACTIVITY FUND

To the Board of Education
Independent School District No. 403
Ivanhoe Public Schools
Ivanhoe, Minnesota

Report on the Financial Statements

We have audited the statement of cash receipts and disbursements of the student activity fund of Independent School District No. 403, Ivanhoe Public Schools, Ivanhoe, Minnesota for the year ended June 30, 2019.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements, that are free from material misstatement, whether due to error or fraud.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Independent School District No. 403
Ivanhoe Public Schools
Ivanhoe, Minnesota

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Basis for Qualified Opinion

The district has not established procedures to provide assurance that all cash collections are recorded in the accounting records. Accordingly, it was not practicable for us to extend our audit of such cash collections beyond the accounts recorded.

Because these financial statements are prepared on the basis of cash receipts and disbursements, revenue is recorded when received rather than when earned and expenses are recognized when paid rather than when the obligations are incurred. Accordingly, the accompanying financial statements are not intended to present financial position and results of operation in conformity with accounting principles generally accepted in the United States of America.

Qualified Opinion

In our opinion, except for the possible effects of the matter discussed in the "Basis for Qualified Opinion" paragraph, the financial statements referred to above present fairly, in all material respects, the cash transactions of the district's student activity account for the year ended June 30, 2019, and the cash balance at that date.

Report on Other Legal and Regulatory Requirements

In accordance with Minnesota Statutes, we have also issued our report dated September 17, 2019, on our consideration of the District's compliance with the provisions of the *Manual for Activity Fund Accounting* issued by the Minnesota Department of Education, pursuant to Minnesota Statutes §123B.49. The purpose of that report is to determine if the district has complied with Minnesota laws and regulations. That report is an integral part of an audit performed in the State of Minnesota.



Meulebroeck, Taubert & Co., PLLP
Certified Public Accountants
Pipestone, Minnesota

September 17, 2019

STUDENT ACTIVITY FUND
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
FOR THE YEAR ENDED JUNE 30, 2019

<u>Organization</u>	<u>07-01-18</u>	<u>2018-19</u>	<u>2018-19</u>	<u>06-30-19</u>
	<u>Balance</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Balance</u>
General	1,072	2	66	1,008
Music	7,396	5,616	4,764	8,248
Student Council	571		25	546
Student Enrichment	5,287	14,758	14,187	5,858
Yearbook	2,144	52	1,128	1,068
Youth BB	182			182
United Way	116	83	28	171
Total	<u>16,768</u>	<u>20,511</u>	<u>20,198</u>	<u>17,081</u>

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INDEPENDENT AUDITOR'S REPORT ON
COMPLIANCE WITH LAWS AND REGULATIONS
APPLICABLE TO THE STUDENT ACTIVITY FUND

To the Board of Education
Independent School District No. 403
Ivanhoe Public Schools
Ivanhoe, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, the Statement of Cash Receipts and Disbursements of the student activity accounts of Independent School District No. 403, Ivanhoe Public Schools, Ivanhoe, Minnesota for the year ended June 30, 2019, and have issued our report thereon dated September 17, 2019.

The *Manual for Student Activity Accounting*, issued by the Minnesota Department of Education, pursuant to *Minnesota Statutes* Section 123.49, provides uniform financial accounting and reporting standards for student activities. We have performed auditing procedures to test compliance with the provisions of this manual.

In connection with our audit, nothing came to our attention that caused us to believe that the district failed to comply with the provisions of the *Manual for Student Activity Accounting*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the district's noncompliance with the above referenced provisions.

The purpose of this report is solely to describe the scope of our testing compliance and the results of that testing, and not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.

Meulebroeck, Taubert & Co., PLLP

Meulebroeck, Taubert & Co., PLLP
Certified Public Accountants
Pipestone, Minnesota

September 17, 2019

SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2019

I. Financial Statement Audit-Internal Controls

Previously Reported Items Not Resolved

2019-I Lack of Segregation of Duties

Due to the limited number of office personnel within the accounting department, proper segregation of the accounting functions necessary to ensure adequate internal accounting control in the areas of bank reconciliation, receipts, disbursements, payroll, journal entries and budgets are not possible. Although this is not unusual in small office situations, management should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an internal control point of view.

The District has implemented internal control procedures which utilize the existing staff to provide for segregation of duties in accounting functions whenever possible.

We recommend that the District's management be aware of the lack of segregation of the accounting functions and, if possible, implement oversight procedures to ensure that the internal control policies and procedures are being implemented by staff.

Corrective Action Plan (CAP)

Evaluation of disagreement with audit findings:

There is no disagreement with the audit findings.

Actions planned in response to the finding:

Because it is economically infeasible to hire additional staff to adequately provide for the proper segregation of duties, the district implemented internal control procedures that will address the areas of segregation the district is lacking, including bank reconciliation's, receipts, disbursements, payroll, journal entries, and budget. The procedures will utilize staff and board members to the extent possible.

Official responsible for Ensuring CAP:

The District's Superintendent in conjunction with the Board of Education is the official responsible for ensuring corrective action.

Planned completion date for CAP:

December 31, 2019

Plan to monitor completion of CAP:

The Superintendent and Board of Education will monitor the internal control system.

SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2019

I. Financial Statement Audit-Internal Controls-continued
Previously Reported Items Not Resolved-continued
2019-II GAAP Financial Statements

District personnel that lack the necessary expertise are responsible for financial statements required to be prepared in accordance with generally accepted accounting principles.

Corrective Action Plan (CAP):

Evaluation of disagreement with audit findings:

There is no disagreement with the audit findings.

Actions planned in response to the finding:

The District will continue to have the auditor prepare the financial statements; however, the district has established an internal control policy to document the annual review of the financial statements, disclosures and schedules.

Official Responsible for Ensuring CAP:

The District's Superintendent in conjunction with the Board of Education is the official responsible for ensuring corrective action.

Planned Completion Date for CAP:

December 31, 2019

Plan to Monitor Completion of CAP:

The Superintendent and Board of Education will monitor the internal control system to ensure it is functioning as the internal control policy states.